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KENYA

Kenya Small Town Shelter and Community Development

Project Paper

615-HG-006

Agency for International Development  
Washington, D.C. 20523

September 1980

**ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA**

**FROM** : AAA/AFR/DR <sup>J.W. Koehring</sup> John W. Koehring

**SUBJECT:** Kenya Small Town Shelter and Community Development, Project 615-HG-006

**Problem:** Your approval is requested to execute a guaranty of \$16 million from the HG program and a low income shelter program for a Development Grant of \$665,000 of FAA Section 106 funds (Selected Development Problems) to the Government of Kenya; and for a positive threshold determination for the IEE for the subject shelter program.

Discussion

A. Project Description:

The purpose of the project is to finance Kenya's first replicable shelter program for small towns by institutionalizing the aided/self-help, minimum standard, maximum cost recovery approach to shelter, to strengthen shelter institutions by establishing a project planning unit within the Ministry of Urban Development and Housing, and by strengthening the National Housing Corporation and local authorities through appropriate technical assistance. To achieve this purpose the project will:

1. Finance the construction of shelter solutions for approximately 2,700 households below median income.
2. Finance 200 small business plots.
3. Finance appropriate community facilities in proximity to shelter solutions.
4. Provide significant skilled and unskilled employment opportunities through the implementation of this project.
5. Support the establishment of a Project Planning Unit within the Ministry of Urban Development and Housing, to coordinate this project and to carry out long term shelter planning and programming for the public and private sectors.
6. Support the re-organization of the National Housing Corporation so that it is better able to serve a larger group of lower-income borrowers.
7. Support training and other programs to assist local authorities.
8. Finance appropriate technical assistance through Development Grant funding.

The proposed project is in accordance with A.L.D.'s 1980 CDSS.

Beneficiaries of the project will be households earning less than the median income.

**B. Financial Summary:**

The U.S. contribution to project costs is in the form of a \$16 million HG loan, a \$665,000 Development Grant, and a \$280,000 grant under the IPUP project. The GOK contribution towards the HG project is estimated at \$4,450,000. The entire Development Grant will be used to finance technical assistance and initial training and will be funded during the first year. Additional training funds will be required from the Bureau after a long-term training plan is completed by the GOK and concurred in by AID.

**C. Socio-Economic, Technical and Environmental Considerations:**

The analyses presented in the PP show the project to be economically, technically and administratively feasible.

The attached Initial Environmental Examination recommends a positive determination. The Project Paper addresses issues raised in the IEE and includes guidelines to mitigate negative effects and enhance positive effects of the project.

**D. Implementation**

Major implementing agencies are the Ministry of Urban Development and Housing, (MUDH) and the National Housing Corporation (NHC). Both agencies have assisted in carrying out the studies required in preparation of the PP and, with the technical assistance to be provided under the Development Grant, will be able to assume the additional responsibilities of project implementation.

The guaranty shall be subject to a condition precedent that, prior to each disbursement, Borrower shall submit a Project Delivery Plan acceptable in form and substance to A.L.D. This Plan shall address the technical, environmental, institutional and financial aspects of each subproject, which will be outlined in detail in the implementation agreement. The technical and the environmental plans shall include technical designs and drawings for the proposed construction, evidence of compliance with site selection criteria, and solutions to the environmental problems identified in the IEE. The institutional plans shall include evidence of actions taken in the reorganization of the NHC and creation of the PPU or other project implementing unit.

**E. Committee Action and Congressional Apprisement:**

1. The Project Review Meeting chaired by Sheldon Cole, AFR/DR/EAP, met on September 8, 1980, agreed that there were no outstanding issues, and recommended that the project proceed to an ECPR meeting. The ECPR was held on September 17, 1980 and recommended approval of the project.
2. No Congressional Notification is required for HG authorization. An Advice of Program Change for the development assistance component will be forwarded to the Congress in early FY 1981. Following expiration of the Advice of Program Change, funds may be obligated.
3. Project implementation will be the responsibility of the Regional Housing and Urban Development Office/Nairobi. The Project Manager responsible for the project is Jeremy Hagger, and the DS/H Project Officer is Jack Hjelt.

**F. Project Issues:**

The only issue raised at the Project Review meeting involved the Audit Report for an earlier Kenya housing project, 615-HG-004. The Project Review meeting agreed with both the Mission and DS/H that the audit recommendations could be addressed most successfully if the current project is authorized.

**Recommendations:**

1. Recommend that you sign the attached Guaranty Authorization (Tab 1);
2. Recommend that you sign the attached Development Grant Authorization (Tab 2); and,
3. That you approve the Positive Determination recommendations made in the Initial Environmental Examination (IEE) by signing the attached environmental threshold decision memorandum (Tab 3).

**Attachments:**

- Tab 1 - Guaranty Authorization
- Tab 2 - Development Grant Authorization
- Tab 3 - Environmental Threshold Decision Memorandum
- Tab 4 - Initial Environmental Examination
- Tab 5 - Project Paper

Clearances:

DAA/AFR:WHNorth \_\_\_\_\_ Date \_\_\_\_\_  
AFR/DP:RStacy 1A Date 9-14-80  
AFR/DR/EAP:SCole 1A Date 9/19/80  
AFR/DR/SDP:JHestof 1A Date 9/19/80  
AFR/DR/ENGR:FZobrist 1A Date 9-19-80  
AFR/EA:DPfeiffer 1A Date 9/19/80  
AFR/DR/SDP:SPatton 80 Date 9/19/80  
AFR/DR/P:NCohen 1A Date 9/19/80  
DS/H:DMcVoy 1A Date 9/19/80  
GC/H:BDavis 80 Date 9/19/80

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON D C 20523

ASSISTANT  
ADMINISTRATOR

GUARANTY AUTHORIZATION

PROJECT 615-HG-006

Provided From: Housing Guaranty Authority

For : The Government of Kenya

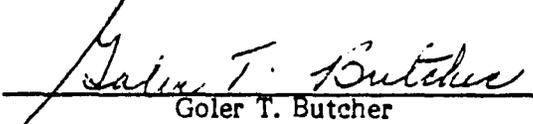
Pursuant to the authority vested in the Assistant Administrator, Bureau for Africa by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not to exceed sixteen million dollars (\$16,000,000) in face amount, assuring against losses (of not to exceed one hundred percent (100%) of loan investment and interest) with respect to loans by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing projects in Kenya.

These guaranties shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans shall extend for a period of up to thirty years (30) from the date of disbursement and may include a grace period of up to ten years on repayment of principal. The guaranties of the loans shall extend for a period beginning with disbursement of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.
2. Interest Rate: The rate of interest payable to the Investor pursuant to the loans shall not exceed the allowable rate of interest prescribed pursuant to Section 223(f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans made in the long term U.S. capital markets.
3. Government of Kenya Guaranty: The Government of Kenya shall provide for a full faith and credit guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranties to the Investor or from non-payment of the guaranty fee.
4. Fee: The fee of the United States shall be payable in dollars and shall be one-half percent (1/2%) per annum of the outstanding guaranteed amount of the loans plus a fixed amount equal to one percent (1%) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.

5. Other Terms and Conditions: The guaranties shall be subject to the following condition precedent and to such other terms and conditions as A.I.D. may deem necessary:

Prior to each disbursement, Borrower shall submit a Project Delivery Plan acceptable in form and substance to A.I.D. Such Plan shall address the technical, environmental, institutional and financial aspects of each subproject, which will be outlined in detail in the implementation agreement. The technical and the environmental plans shall include technical designs and drawings for the proposed construction, evidence of compliance with site selection criteria, and solutions to the environmental problems identified in the IEE. The institutional plans shall include evidence of actions taken in the reorganization of the NHC and creation of the PPU or other project implementing unit.

  
Goler T. Butcher  
Assistant Administrator  
Bureau for Africa

  
Date

PROJECT AUTHORIZATION

Name of Country: Kenya

Name of Project: Small Town Shelter and Community Development Project

Number of Project: 615-0212

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Small Town Shelter and Community Development Project involving planned obligations of not to exceed \$665,000 in grant funds over a one-year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to assist in financing the foreign exchange and local currency costs for the project.

2. This project will provide technical assistance to complement a \$16 million Housing Guaranty to the Government of Kenya. Two long-term technical advisors will be funded from this grant. One will have primary responsibility for community development and liaison, while the second will provide expertise in building design, building technology, and self-help housing completion.

3. The Project Agreement, which may be negotiated and executed by the officers to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and condition as A.I.D. may deem appropriate.

4. Source and Origin of Goods and Services

Except as provided herein or as A.I.D. may otherwise agree in writing, goods and services financed by A.I.D. under the Project shall have their source and origin in the Cooperating Country or in the United States. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

Date: Sept 19, 1980

Goler T. Butcher  
Goler T. Butcher  
Assistant Administrator  
for Africa

ENVIRONMENTAL THRESHOLD RECOMMENDATION

Project: Kenya  
Project Title: Small Town Shelter and Community Development  
Funding: HG: 006 US \$16 million  
Date IEE Prepared: March 1979

ENVIRONMENTAL ACTION RECOMMENDED:

Based upon the findings of the IEE, a Positive Threshold Determination is recommended. The specific environmental issues warranting further detailed investigation, and for which appropriate project design responses shall be prepared in the Project Paper, are outlined in the IEE.

Office of Housing: David McVoy Date: 9/18/80  
David McVoy  
Asst. Director for Operations

Africa Bureau: [Signature] Date: 9/19/80

AGENCY FOR INTERNATIONAL DEVELOPMENT <b>PROJECT PAPER FACESHEET</b>	1. TRANSACTION CODE <input type="checkbox"/> A ADD <input type="checkbox"/> C CHANGE <input type="checkbox"/> D DELETE	PP 2. DOCUMENT CODE 3
	4. DOCUMENT REVISION NUMBER <input type="checkbox"/>	

3. COUNTRY/ENTITY KENYA	4. DOCUMENT REVISION NUMBER <input type="checkbox"/>
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5. PROJECT NUMBER (7 digits) <input type="checkbox"/> 615-HG-006	6. BUREAU/OFFICE A. SYMBOL AFR B. CODE <input type="checkbox"/> 06	7. PROJECT TITLE (Maximum 40 characters) <input type="checkbox"/> SMALL TOWN SHELTER & COMMUNITY DEV.
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8. ESTIMATED FY OF PROJECT COMPLETION FY <input type="checkbox"/> 8 <input type="checkbox"/> 3	9. ESTIMATED DATE OF OBLIGATION A. INITIAL FY <input type="checkbox"/> 81 B. QUARTER <input type="checkbox"/> 2 C. FINAL FY <input type="checkbox"/> 81 (Enter 1, 2, 3, or 4)
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10. ESTIMATED COSTS \$500 OR EQUIVALENT \$1 -						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L C	D. TOTAL	E. FX	F. L C	G. TOTAL
AID APPROPRIATED TOTAL						
(GRANT) DA	( 665 )	( )	( 665 )	( 665 )	( )	( 665 )
IIPUP	( 280 )	( )	( 280 )	( 280 )	( )	( 280 )
OTHER U.S. 1. HG LOAN	16,000		16,000	16,000		16,000
2.						
HOST COUNTRY		4,450	4,450		4,450	4,450
OTHER DONOR(S)						
TOTALS	16,945	4,450	21,395	16,945	4,450	21,395

11. PROPOSED BUDGET APPROPRIATED FUNDS (\$5000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY <u>81</u>		H. 2ND FY		K. 3RD FY	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
(1) SD	720	860	862	945					
(2)									
(3)									
(4)									
TOTALS				945					

A. APPROPRIATION	N. 4TH FY		O. 5TH FY		LIFE OF PROJECT		12. IN-DEPTH EVALUATION SCHEDULED
	P. GRANT	Q. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN	
(1) SD					945		<input type="checkbox"/> 1 <input type="checkbox"/> 0 <input type="checkbox"/> 8 <input type="checkbox"/> 3
(2)							
(3)							
(4)							
TOTALS					945		

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 OR IN PPP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET

1 1: NO  
2: YES

14. ORIGINATING OFFICE CLEARANCE SIGNATURE  TITLE <i>Allison B. Hewick</i> Director, USAID/Kenya		DATE SIGNED MM DD YY 09 11 81	15. DATE DOCUMENT RECEIVED IN AID'S, OR FOR AID W/ DOCU. MENTS, DATE OF DISTRIBUTION MM DD YY   
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## TABLE OF ABBREVIATIONS

DG	AID Development Grant
DS/H	Office of Housing, A.I.D.
GOK	Government of Kenya
HG	Housing Guaranty Program
IBRD	International Bank for Reconstruction & Development
IIPUP	Integrated Improvement Program for the Urban Poor (AID)
MCSS	Ministry of Culture and Social Services
MLG	Ministry of Local Government
MUDH	Ministry of Urban Development and Housing
NHC	National Housing Corporation
ODA	British Overseas Development Administration
PCV	Peace Corps Volunteer
PPD	Physical Planning Department, MUDH
PPU	Project Planning Unit, MUDH
RHUDO	Regional Housing & Urban Development Office (Nairobi, Kenya)

## CURRENCY EQUIVALENTS

Currency Unit=		Kenya Shilling
US \$1.00	=	KShs. 7.25
KShs 1	=	US \$0.14

## METRIC EQUIVALENT

1m <sup>2</sup>	=	10.75 square feet
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## L SUMMARY AND RECOMMENDATIONS

### L.A. Introduction

The proposed Kenya Small Towns Shelter and Community Development project is the second HG program outside the capital city.

In 1974 a \$5 million project was authorized to assist the National Housing Corporation with construction of housing in eleven secondary towns. Detailed evaluation of the successes and the problems associated with that project, and the institutions involved, have been incorporated into the current design of this new project directed at the nation's small towns.

Both natural population growth and rural to urban migration are acute problems in Kenya today. This project is being proposed at a time when the Kenyan Government (hereafter GOK) has recognized the need to promote regional development by initiating service programs and directing public investment toward specific growth centers in order to counteract the attraction of the nation's major cities, Nairobi, Mombasa and Kisumu.

Towns identified for this program range in population from approximately 5,000 to 15,000. These towns are primarily administrative and training centers servicing large rural areas. The development of towns like these is recognized as important both in terms of extending urban functions to rural areas and as potential growth points to absorb and alleviate some of the rural to urban migration. While the scale of needs and the appropriate size of site and service, core housing, or upgrading projects are relatively small in any one town, the range of those needs, including the improvement of basic infrastructure, urban services and community facilities, is great. Projects or upgrading programs focused on particular communities, like those in large cities, would be very small in these towns and would miss many of the basic problems affecting shelter. Moreover, in large cities projects are focused in order to reach low income groups. In these towns, most of the population is low income. In Kenya most of the households in small towns have incomes below the 1980 median for "secondary" towns.

The proposed umbrella program starts with the determination that most of the households in these small towns are eligible beneficiaries. It provides for a diverse set of project options to meet new shelter needs and upgrade infrastructure and services of the town as a whole - much like the integrated projects or community upgrading programs in a large city. In fact, these towns are smaller than some of the communities in large cities. To a certain extent dealing with a whole town in this way represents a new thrust and direction for the HG program. It is probably the only viable way the shelter needs of small town residents in Kenya - and possibly other countries in Africa - can be met.

In 1979 GOK interest was expressed in a new HG financed program, and eleven towns were identified for AID consideration by the Ministry of Urban Development & Housing (hereafter MUDH). Photographs depicting some of the towns are found at the end of this Project Paper. A team of consultants was contracted to complete a study of these towns. The study included reconnaissance visits to each town to identify major characteristics and needs. A more detailed analysis was undertaken in three of the towns to determine the types of program activities which might feasibly be developed to meet the shelter needs identified. Six separate reports were prepared documenting the findings of these studies. Supplemental reports were prepared by independent consultants on the technical aspects of the proposed project. The findings of these studies were used in formulating the proposed project. One of the reports deals specifically with the study methodology used and is intended to serve as a guide for project identification and subsequent development of detailed designs for each of the towns.

GOK institutions will be assisted as they identify shelter needs and outline overall development plans for small towns, and as they design and implement programs which deliver very low cost shelter solutions and other related services to families with incomes below the median. The project will provide technical assistance intended to improve project administration, facilitate project execution, and improve institutional capability for project financing, management and cost recovery.

Project designs will incorporate innovative applications of energy conservation principles and other measures specifically intended to reduce initial project costs and to minimize recurrent costs to the beneficiary. Construction standards will be minimized to eliminate unnecessary financial burdens on lower income beneficiaries, and special programs will be organized to assist self-help construction efforts. The project will permit Kenyan authorities to examine the viability of such an approach to resolving shelter problems and will help to establish a base of technically trained staff which can carry out projects independently of foreign assistance.

The proposed project has been developed in coordination with the GOK and with the World Bank (IBRD) and the British Overseas Development Administration (ODA). This coordination has been encouraged by the GOK in the context of a plan to have all three donors support the nation's regional urban development program.

The proposed project has also been extensively coordinated with USAID/Kenya programs.

#### LB. Summary Project Description

##### LB.1. Goal and Purpose

The project goal is the improvement of living conditions of low income households residing in Kenya's small towns.

The project's purpose is to demonstrate improved methods for administration of public sector low-cost shelter programs in small towns including community facilities and employment generation components, with special attention to project identification, innovative design and post-occupancy management.

##### LB.2. Project Outputs

There are two principal categories of project outputs: those resulting in improvement of institutional capacity and those resulting in improvement of physical living conditions for the project beneficiaries.

##### LB.2.a. Institutional Outputs

The project is designed to result in a shelter problem solving process and, therefore, institutional outputs are of importance. MUDH is responsible for the delivery of shelter solutions and services throughout the country. The primary institutional goal of this project is to develop a process whereby the GOK can deliver shelter solutions to the small towns; MUDH is the key actor in this problem solving process.

There are three principal institutional outputs. First, the creation of a Project Planning Unit (PPU) within the MUDH. It is anticipated that the PPU will have overall scheduling control of the project. Second, this program will reinforce the present GOK efforts to reorganize the NHC into a more effective producer of shelter solutions for households below the median income. Finally, local authority capacity will be increased in a variety of sectors through their participation in this program and as a result of increased technical assistance and training opportunities.

I.B.2.b. Physical Outputs: Shelter Solutions, Community Facilities, & Business Plots

The project is designed to help the GOK adopt a process of shelter problem solving which will result in the selection of a mix of outputs unique to each town. For this reason, the following list of project outputs describes some of the basic options from which program elements will be chosen but does not suggest the actual mix to be applied in any given town. The shelter options will include upgrading of existing substandard neighborhoods, serviced sites, core units, and building loans (home improvement or construction loans to be, in some cases, combined with the other outputs). The program may also include rental units for those families in the target population who prefer the rental option.

An illustrative table showing the range of shelter options proposed follows:

TABLE I-1  
Physical Outputs

<u>OUTPUT</u>	<u>UNIT</u>	<u>TOTAL COST</u>	<u>MONTHLY INCOME LEVEL SERVED</u>	<u>INCOME PERCENTILE SERVED</u>
A. Shelter Solutions				
Type I (Upgrading)	1,000	\$2,300	\$ 95.00	18%
Type II (Serviced Sites)	400	3,200	122.00	25%
Type III (Building Loan)	600	1,000	60.00	10%
Type IV (Core Housing)	300	3,300	144.00	45%
Type V (Rental)	400		Housing Allowance*	
B. Cash Sale Plots	500			
C. Small Business Plots	200			

\*Salaried employees in some towns receive a housing allowance of sufficient size to cover rental option.

In order to complement the shelter outputs, this program will provide financing for those community facilities deemed necessary for a minimum, acceptable standard of living in the target communities. The project will also permit delivery of serviced sites suitable for small scale businesses owned by members of the community and located in close proximity to the shelter units.

I.B.3. Project Inputs

The primary project input will be a \$16 million HG loan drawn down in two tranches. The HG loan will be used to finance shelter solutions, community facilities, employment generation, and some amount of short term technical assistance and training.

Grant funds will provide significant amounts of necessary technical assistance to this program. Two long term (two years each) technical advisors will be funded from a development grant of \$560,000. One of these individuals will have primary responsibility for community development and liaison while the second will have expertise in the field of building design, building technology, and self-help housing completion. These individuals will also have responsibilities for supervising Peace Corps Volunteers who will be assigned to this project. It is anticipated that one of these positions will be filled in FY 81 and the other in FY 82.

A third long term advisor for project coordination and administration will be provided for two years beginning in FY 81 by a \$280,000 grant from the Integrated Improvement Program for the Urban Poor (IPUP). In addition, an amount of \$105,000 will be used to provide training for Kenyan officials involved with the project.

The GOK will make a contribution to this project valued at \$4,450,000, in five forms: beneficiary downpayments, land, local staff salaries and support, community facilities, and employment generation assistance.

In summary, project inputs are as follows:

HG Loan	\$16,000,000
GOK Contribution	<u>4,450,000</u>
	\$20,450,000

Technical Assistance (except for Peace Corps participation):

Development Grant	\$665,000
IPUP Grant	<u>280,000</u>
	\$945,000

LC. Recommendations

Based upon a review of the proposal set forth in this paper, it is recommended that the subject housing guaranty and development assistance be approved as follows:

Amount of Housing Guaranty: \$16 million

Technical Assistance: Development Grant: \$665,000 to be approved from FAA, Section 106 funds (Selected Development Problems).

Technical Assistance: IPUP: \$280,000 grant to be approved from the IPUP project.

## II. DETAILED PROJECT DESCRIPTION

### II.A. Project Relationship to AID Strategy

The project has been designed to assist in implementing the strategy outlined in the Kenya Shelter Strategy Statement and the PID. The project will be directed specifically at three of the long term objectives of that strategy:

1. The project will bring about a strengthening of the capacity of existing shelter sector agencies at national and local levels to finance, plan, implement, and manage large scale shelter programs which are directed at low income households. Special emphasis will be placed on improving the capacity of local government to deal with shelter issues. This will be accomplished through direct operating experience, and with extensive technical assistance.
2. The project is also designed to institutionalize within Kenya's shelter sector agencies the self-help, minimum standard, maximum cost recovery approach to housing. The project will demonstrate to Kenyan authorities the viability of such an approach to resolving shelter problems, and will help to establish a base of technically trained staff who can implement projects independently of foreign assistance.
3. The project will reinforce the emerging GOK efforts to foster development of secondary towns through the provision of financing for shelter programs and community development activities as well as employment generation projects and technical assistance in administration for local government.

Furthermore, the project offers a number of potential linkages with other USAID/Kenya program activities. A number of the initial sub-programs will share a common geographical focus with the Mission's small holder agricultural interventions. The western Kenya towns included in the program serve as regional market centers for large numbers of people who are the beneficiaries of other AID efforts. Western Kenya is the location for Mission programs dealing with rural access roads, proposed water improvements, and proposed market interventions besides being the focus for substantial agricultural projects. USAID/Kenya and the RHUDO are pursuing ways to achieve further program integration. Preliminary discussions between the staffs of the Mission's health programs and the RHUDO indicate a geographic fit in the Kitui district of eastern Kenya. All parties will strive for consistent and mutually reinforcing shelter and health interventions in the Kitui area. This program, therefore, will be a means to obtain substantially greater functional integration between the Mission's substantial shelter program and its development assistance programs.

The project will be one of the first foreign assistance programs to support the recently emphasized GOK program to strengthen financial capabilities and resources at the local government level. Recent GOK policy statements have indicated that the national government will expect town councils and other local authorities to become increasingly reliant on their own resources to carry out community development programs. Before such an objective can be reached, considerable assistance in public administration and the management of local government finances will be required. The Rural Planning II project obligated in August 1980 is directed toward decentralizing planning for development and increasing local control over central Ministry resources at the provincial and district level. The towns covered by this project are district headquarters.

## II.B. Coordination with other International Donors

In recent years, the IBRD has focused its shelter improvement programs on Nairobi. The World Bank is now beginning to shift its focus to the nation's secondary towns and has begun a program of low cost shelter production in Kenya's second and third largest cities, Mombasa and Kisumu. This fifty million dollar program, a mix of IDA credit and a Bank loan, also includes funds to support the development of a new program in the nation's small towns. The IBRD small towns project is in the early stages of definition.

The United Kingdom's Overseas Development Administration (ODA) is also participating in the small towns development program. A request for proposals for consultant studies was issued in London, and the proposals received are now being evaluated.

The Housing Division of the MUDH is coordinating the activities of the three major donor agencies so as to avoid duplication of efforts and to share the lessons learned on any one project. Joint meetings of the donor agencies and the GOK have been held every few months during the last year and significant coordination has been achieved.

Because these small town development efforts will include a variety of capital inputs as a result of the participation of the three foreign donor agencies and the GOK, discussions have begun which focus on the appropriate lending rates and the need for comparability. Many of the towns which will be considered for pilot projects by the three agencies will not be distant from one another, and the existence of different local loan terms for similar programs would cause confusion, and probably political reaction. Though project definition has not yet reached a point where details can be discussed and agreements reached, discussions have begun which should lead to the adoption by the GOK of comparable terms and criteria for the small town shelter production financed by the three international donor agencies.

## II.C. Project Goal and Purpose

The project goal is the improvement of living conditions of low income households residing in Kenya's small towns.

The project's purpose is to demonstrate improved methods for administration of public sector low-cost shelter programs in small towns including community facilities and employment generation components, with special attention to project identification, innovative design and post-occupancy management.

## II.D. Project Outputs

The project is designed to result in a shelter problem solving process and, therefore, institutional outputs are of great importance. Realization of these institutional outputs will aid replicability of concept and performance.

### II.D.1. Institutional Output: Creation of Project Planning Unit (PPU)

A Project Planning Unit (PPU) will be established in MUDH. This group will identify the site, the types of solutions, the mix of community services and the budget limitations for projects to be assisted by the HG financing. Technical assistance in the form of long term project coordination and community development expertise will be provided in the establishment of the Project Planning Unit.

Through establishment of this mechanism, the project will introduce comprehensive project planning into the national shelter sector. The P.P.U. will have to form linkages across governmental lines, collaborating not only with other Central Government Ministries but also with provincial, district, and local authorities. The P.P.U. will have to assist community leaders to identify their local area shelter needs and to effectively bring these needs to the attention of the national government.

The P.P.U. will also have to encourage participation in the project design process by such Ministries as Culture and Social Services, Basic Education, Water Development, Health, and Local Government. The P.P.U. will also have to coordinate a project's land requirements (at least to the point of initiating the reservation process) with the Commissioner of Lands.

The P.P.U. will also have overall scheduling control of the project being responsible for monitoring the flow of funds.

#### II.D.2. Institutional Output: Reorganization of NHC

This program will reinforce the present GOK efforts to reorganize the NHC into a more effective producer of shelter solutions for households below the median income. Technical assistance in minimum standard shelter design, construction supervision, cost control, and house completion will be provided to increase NHC capability.

The NHC will be responsible for site specific project design and for implementation of the project selected for each individual town. The NHC will, therefore, refine the general directions provided by the P.P.U., will set the exact mix of solutions, and will coordinate with other agencies to be sure that public facilities standards are observed, or adopted as necessary.

#### II.D.3. Institutional Output: Strengthened Local Authorities

Local authority capacity will be increased with the help of additional training opportunities sponsored by the Ministry of Local Government (to coordinate with this program) and with the input of the technical assistance component of this program. Local authorities will actively participate in the process of project identification. An important feature of this process will be a review of their financial program with the relevant central government agencies involved. The local authorities ability to service shelter projects will have significant carry-over value to their other operations. Further, as local authorities become better able to oversee estate management activities, their overall service delivery capability should be increased. It is anticipated that many of these service improvements will involve the promotion of popular participation in community programs. Technical assistance under the IPUP program will be essential to realize these goals.

#### II.D.4. Shelter Outputs

The project is designed to help the GOK adopt a process of shelter problem solution which will result in the selection of a mix of outputs unique to each town. In this way the shelter aspects of a town sub-program will not be considered in isolation from the community facilities, jobs, growth potential, etc., which are the appropriate planning criteria for any particular area.

For this reason the following project description lists some of the basic options that will be chosen, but does not suggest the actual mix to be applied in any given town. The shelter solutions will include upgrading of existing substandard neighborhoods, serviced sites, core units, and building loans (home improvement or construction loans to be, in some cases, combined with the other outputs). The program may also include rental units for those families in the target population who prefer the rental option.

Site development financing will also be offered as an option in those cases where the sale of serviced plots to families above the median income level seems appropriate. Cash sale plots will be offered at market (rather than cost) price and seem an appropriate way to reduce the risk of large scale sub-leasing of units to higher income groups. Within the Kenyan shelter market a wide gap exists between the bulk of the population and those able to secure private housing mortgages. A program offering minimal cost shelter options must deal directly with this market condition.

An illustrative table showing the range of shelter options proposed and a preliminary estimate of how such solutions might be spread across eleven towns follows as Table II-1.

#### II.D.5. Community Facilities Output

In order to complement the above shelter outputs, this program will provide financing for those community facilities, such as schools, health centers, markets, community centers, and playing fields which are deemed necessary for a minimum, acceptable standard of living in the target communities. Wherever possible, as in the case of markets, user charges will be fully applied. Public equipment may also be purchased with HG funds if such equipment is deemed an integral part of the program.

#### II.D.6. Employment Generation Outputs

The project will also permit delivery of serviced sites suitable for small scale businesses owned by members of the community and located in close proximity to the shelter units. At present these business activities usually lack space for expansion and connections to public facilities. In addition to secure land tenure, this sub-program will offer improved work space and conditions to business which are particularly labor intensive.

This program will strive to assist productive enterprises which employ residents of the shelter solutions. In many instances this program will focus on womens' efforts to cope with their changing economic roles in the transition from rural to town life. Technical assistance advisors in the program will emphasize the importance of training courses in various business skills. Various groups have already been identified which will be essential in any employment generation sub-program; they are Village Polytechnics (MUDH), the Women's Bureau (MCSS), and the national womens' organization (Maendeleo ya Wanawake). Advisors in this field will support and promote local initiative to set up similar organizations in their areas to complement the serviced sites to be made available under this program.

### II.E. Project Inputs

#### II.E.1. HG Loan

The primary project input will be a \$16 million HG loan drawn down in two tranches. The HG loan will be used to finance shelter solutions, community facilities, employment generation, and some amount of technical assistance.

TABLE II-1  
SUB-PROGRAMS TO BE FINANCED BY HG LOAN (US\$)

SUB-PROGRAMS	NUMBER OF SOLUTIONS		FINANCING REQUIREMENTS (1980 \$) 4 /	
			Unit	Total
<b>I. SHELTER UNITS</b>				
TYPE 1: UPGRADING		1,000		
a) Upgrading and Building Loan	900		2,300	1,799,000
b) Upgrading	200		1,700 <sup>1/</sup>	31,000
TYPE 2: SITE AND SERVICES		400		
a) Site and Service plus Material Loan	290		3,200 <sup>2/</sup>	940,000
b) Site and Services	110		1,700	183,000
TYPE 3: BUILDING LOAN		600	1,000	603,100
TYPE 4: CORE HOUSING		300	3,300	993,000
TYPE 5: RENTAL UNITS		400	4,500	1,793,000
Subtotal:		2,700	NA	6,632,100
II. CASH SALE PLOTS:		500	2,700 <sup>2/</sup>	1,359,000
III. SMALL BUSINESS PLOTS:		200	2,800 <sup>3/</sup>	568,000
IV. COMMUNITY FACILITIES:		NA	NA	621,000

1. Total: 9,180,100
2. + TA: 500,000
3. HG LOAN (1980 \$): 9,680,100
4. x inflation factor @ 15% per year for 4 years
5. = TOTAL HG LOAN OF \$15,783,100 (1984 \$) = \$16 Million

FOOTNOTES:

<sup>0/</sup> Range: \$2,800 - \$3,600. Weighted average: \$3,200.

<sup>1/</sup> Range: \$1,400 - \$2,800. Weighted average: \$1,700.

<sup>2/</sup> Range: \$2,300 - \$3,900. Weighted average: \$2,700.

<sup>3/</sup> Range: \$1,400 - \$3,600. Weighted average: \$2,800.

<sup>4/</sup> 12%<sup>0</sup>, 25 years, 5% downpayment terms assumed except for cash sale plots (12%<sup>0</sup>, 2 years); small business plot loans (12%<sup>0</sup>, 5 years); building loans (12%<sup>0</sup>, 10 years); and community facility loans (12%<sup>0</sup>, 25 years). Rental rates at start of project (year 3) to be KShs 275/month (\$38) escalating 5% a year.

## **II.E.2. Technical Assistance and Training**

The technical assistance program will be of vital importance in achieving the project's extensive institutional outputs. Three long term (two year) advisors are planned: one to assist with project planning and overall project administration; one to assist in community development and community services; and one to assist with building design, building technology, and house completion.

The advisor who will assist with project planning and overall project administration will be funded by an IPUP grant of \$280,000. This advisor initially will assist in the establishment of the P.P.U. and in helping to create a project preparation capacity. In addition, once the initial USAID group of town development programs have been agreed to and submitted to NHC, then the advisor will be assigned to NHC to assist with implementation. At the NHC the advisor will function as counterpart to the "USAID Project Coordinator" who will have line responsibility for implementation of this program. The individual filling this position will need training and experience in urban planning or community development with previous experience in overseas project administration. In addition to a broad understanding of the characteristics of urban development, the advisor should be well grounded in project scheduling, construction management, and performance tracking. It is anticipated that the coordinator will commence work in Kenya in FY 1981.

The second position, the community development and services specialist, will be funded through Development Assistance in an amount of \$280,000. This specialist will work with both institutions at the national and local level and with beneficiaries. It is expected that this advisor will reside in the NHC regional office located nearest to ongoing development activities or in one of the project towns itself. At the local level, the advisor will act as the central channel of communication between local authority officials, provincial representatives of other involved Ministries (such as Local Government, Health, Basic Education, and Water Development), and the NHC Divisional Project Manager. In this role the advisor will facilitate implementation of town subprograms by assisting in the delivery of scheduled inputs. In addition, the advisor will assist in formulating new or improved local authority programs and policies for tenant education; allocation; collections; public service delivery; and estate management. The individual will also assist in identifying training needs of participating local authorities. At the national level the advisor will work with MLG in establishing appropriate training programs for these local authority staff members. This individual should have experience and training in community development administration and would coordinate some PCVs who have special responsibilities for community development or employment generation activities. He or she should be placed in the field during late FY 1981.

The third advisor will have expertise in the fields of building design, building technology, and house consolidation (i.e. self-help building). This individual will be funded through Development Assistance in an amount of \$280,000. It is anticipated that this advisor would be located in an NHC regional office (initially in the western Kenya regional office). Because a significant portion of the proposed program will involve building materials loans for new and improved shelter, technical support systems will have to be developed which aid beneficiaries in constructing their houses and in identifying improvements in building design. This advisor will work with the NHC Divisional Project Manager in developing a building materials loan program and will supervise PCVs who will be specifically recruited to aid in the self-help construction process. In addition, the specialist will attempt to identify and implement on a

demonstration basis special innovations in the field of renewable energy technology and low-cost water supply and sewage treatment appropriate to particular towns. This individual should have experience in construction supervision, preferably in low-cost housing, in building materials warehousing, loan processing, and accounts management. Special efforts will be made to recruit an individual with experience in energy conservation technology. This person should be placed in the field during FY 1982.

As indicated above, Peace Corps Volunteers will play a major role at the local level in assisting beneficiaries and local authorities in implementation. Extensive discussions have been held with the Peace Corps both in Washington and Nairobi to design this component of the program. The Peace Corps "Country Statement" now records that 3 PCVs will begin training in March 1981 followed by up to 10 additional trainees in September 1981.

One PCV will be stationed in each small town during project implementation. The exact roles of these PCVs will vary with the particular needs in any one town and the type of shelter interventions proposed. In general there will be two types of assistance sought from PCVs: self-help building assistance and community development and administration assistance.

Some volunteers will be recruited especially to assist with self-help house building. These PCVs will be coordinated by the building technology advisor who will supervise activities in a number of towns and will assure a close relationship of the physical and socio-economic components of each town's programs. Since a separate Peace Corps Kenya program may provide instructors in vocational training to the Village Polytechnics, some field cooperation may be possible. PCVs will help to introduce new building techniques, including appropriate technology, to these small towns.

Other PCVs, especially those dealing with upgrading sub-programs, will concentrate on community development functions, including tenant education and public services delivery. These individuals will work both with beneficiaries and local authority staff to identify and resolve individual household problems. In addition, these PCVs will attempt to identify ways to maximize the effectiveness of proposed community facilities and employment generation sub-programs of this project. Their activities will be coordinated by the community development advisor assigned to the project.

Some short-term technical assistance will be required throughout the project implementation period. It is proposed that this assistance be funded out of HG loan funds. It is anticipated that \$500,000 will be used for this purpose in the following areas:

- 1) identification and planning of projects by P.P.U. and the preparation of Project Reports for submission to NHC (among other things these Project Reports would contain descriptions of housing need and demand; number and type of shelter solutions proposed; an initial site survey; an agreement with the Commissioner of Lands to reserve the necessary land; an analysis of associated social community and employment needs and proposed sub-programs; a plan for control of land use and sale as required; and an administrative plan for strengthening the local authority in project management and services financing.) It is expected initially that the P.P.U. will require substantial assistance in the form of short-term consultancies to effectively carry out its project planning and preparation activities. As it gains experience and capability, the need for assistance will lessen commensurately;

- 2) public finance administration applicable to both the NHC and the local authorities;
- 3) identification, preparation, and implementation of small-scale and neighborhood enterprises (the Women's Bureau of the women's service organization, Maendeleo ya Wanawake could be assisted in identifying and packaging small-scale pilot programs to benefit female-headed enterprises);
- 4) specific building technology requirements (e.g., innovations to accommodate special soil conditions and address special sanitary disposal problems; analysis and testing of proposed appropriate energy-conservation technologies);
- 5) evaluation and monitoring in the form of assistance to MUDH in the development of a methodology for selected intensive evaluation of small town subprograms and possible preparation of baseline and longitudinal surveys and preparation of reports.

Training will also be an important area of AID assistance to this project. Through its emphasis on development and promotion of a new process, the proposed project exemplifies the demonstration function of AID shelter efforts. Project success will require informed political support for the process and popular participation in its application:

Three areas have been initially identified for short-term training assistance:

- 1) Project identification: delay, consequent cost increases and marketing problems in the first secondary towns project are traceable largely to faulty project identification processes. The application of a new process will require the training of key actors - MUDH, MLG, and local government leaders and officials through workshops, seminars, and on-the-job guidance of MUDH staff by resident technical advisors.
- 2) Innovative physical design: unaffordable design standards are being revised by GOK to reduce shelter costs, but new standards often will involve utilization of unfamiliar or non traditional solutions in the modern sector shelter production process. This use will require orientation of MUDH, MLG, and local government leaders and officials through seminars and training of NHC technicians through short courses and on-the-job training.
- 3) Post occupancy management: the recent audit of the secondary towns project highlighted major deficiencies in post-occupancy management. These problems are directly traceable to the absence of suitable training for local government officials in this field. Improved management will require orientation of MUDH, MLG, and local government leaders through seminars and training.

The immediate needs of this project in these areas will be met through on-the-job training by resident technical advisors and by a series of short courses and seminars which will be funded through a grant of \$55,000 in FY 81. These short courses and seminars will be administered by the Kenya Institute of Administration's Department of Local Government Training. They will provide about four weeks of training to each of about 100 local government, NHC, and MUDH officers, and about one week of orientation to each of about 100 local and national elected leaders and senior officials.

AID will also provide \$50,000 in FY 81 to help prepare detailed plans for a long term training program now being considered by the GOK for training of local government officials and councillors. The training would constitute an important step toward increased local participation in development programs and the revitalization of local authorities. The program would give special attention to integrated urban management and housing project management training. Based on commitments from GOK and other sources, AID will consider supporting the completed training plan.

#### II.E.3. Host Country Contribution

The host country contribution will take five forms: downpayments, land, local staff salaries and support, community facilities, and employment generation assistance.

Downpayments by beneficiaries will be 5% of dwelling development cost, including cost of attributable infrastructure, dwelling construction (in the case of the core houses), and loans to beneficiaries for completion or construction of their dwellings. In the aggregate, the downpayments will total about \$350,000. No downpayments will be required for the rental units, cash sale plots, or community facilities.

The GOK through the Commissioner of Lands, and the local authorities in the cases of privately owned land, will make available such land as is necessary for the project. Although neither a final estimate of land need has yet to be carried out, nor a final cost estimate made, it is suggested that the shelter solutions plus ancillary land for roads and community facilities will require approximately 75 hectares. A preliminary valuation of \$40,000 per hectare results in a GOK contribution of approximately \$3,000,000 for land.

GOK staff salaries and support (including those of local authority officials) for the approximately 5 year duration of this project will be considerable. A preliminary monetization for this cost indicates an annual amount of \$200,000 contributed by the GOK for a life of project cost of \$1,000,000.

Funds for community facilities (capital as well as recurrent costs) will come from the GOM and local authorities as well as from the HG loan. No firm cost estimate has yet been made for this element of local contribution and so none is listed in this Project Paper. Nevertheless, an illustrative figure of \$4.8 million has been suggested as the target towns' proportional share of disbursements from the Local Government Loan Authority during this 5 year period.

Employment generation assistance in the form of market analysis, management consulting, and related advisory services may be provided without charge to business plot owners by the parastatal Kenya Industrial Estates. The estimated value of these services over the life of the Project is \$100,000.

The total estimated host country contribution can be summarized as follows:

Downpayments	\$350,000
Land	3,000,000
GOK Staff Salaries	1,000,000
Employment Generation	<u>100,000</u>
Total	\$4,450,000

#### II.F. Project Beneficiaries

There will be about 2,700 low income shelter allottees in this project plus approximately 500 buyers of cash sale plots and 200 purchasers of small business plots. There will be, therefore, about 27,000 direct beneficiaries of the low income shelter components of this project. About 40% of them will be tenants of the primary beneficiaries. This projection is based on GOK estimates of 10 persons per plot and 6 persons per family in similar existing projects.

This project will also build community facilities to serve these shelter allottees as well as many other small town residents in accordance with GOK intentions to create economically and socially integrated communities.

Projecting a figure of 5 workers per business plot, there will be approximately 1,000 direct worker beneficiaries of the employment generation component of the program. Other low income households will indirectly benefit from the employment generating impact of a) project construction, and b) staffing of community facilities.

Subletting a portion of the shelter units is expected to be a common feature of this program as it is elsewhere in Kenya. Severe housing shortages throughout the country, and especially in the fast growing small towns, have led many home owners to rent a portion of their home. Due to high rents, most poorer Kenyan families can only afford one room.

In this project, some applicants will be accepted who can afford their units only by subletting a room to increase their income. Thus, provision for partial subletting will reduce the minimum affordable income necessary to participate in the program and thus increase the number of potential beneficiaries.

In fact, the likelihood of subletting has been explicitly taken into account in the planning and designing of this project. While partial subletting will be accepted, the new version of the Tenant Purchase Agreement (to be drafted) will specifically regulate (though not prohibit) total subletting. These regulations will be designed to introduce disincentives for total subletting, such as surcharges, which are enforceable in the Kenya context, coupled with a homeowner education program demonstrating the problems of absentee ownership. It is believed that these housing units will be less subject to improper allocation pressures from higher (and potentially ineligible) income households. These measures are considered important in deterring misallocation and ensuring long term beneficiary commitment to the development of program neighborhoods as stable communities.

The beneficiaries' primary sources of income will be wage or self-employment, peripheral agricultural activities, and rent; this last item may contribute up to \$33 (KShs 250) per month in selected locations. Typical urban occupations within the target population income range include teachers, semi-skilled clerks or civil servants, workers in industrial or agro-business establishments, construction workers, and self-employed artisans.

The current Kenya Development Plan assumes that median income families spend 25% of income on shelter costs. The most recent GOK household expenditures survey (1978) suggests that a lower average rate is more accurate for below median income families; however, an above average payment rate seems most appropriate for households purchasing shelter units. On balance 25% of income spent on shelter appears to be an appropriate criterion for limiting dwelling design and cost. The affordability estimates for this project are based on this percentage rate.

At any given income level, however, willingness to spend for shelter varies, and some families will choose to spend more than 25% of their income rather than accept less desirable housing. Therefore, during project implementation, flexibility will be exercised where appropriate in determining individual eligibility.

The minimum affordable income for this project using a traditional level payment mortgage plan would be \$60 (KShs 435) per month. This minimum program would be restricted to building loans only. It is anticipated that upgrading sub-programs may also service some beneficiaries at this income level with larger numbers of participants having slightly higher income. Site and service and core housing options would be allocated to higher income beneficiaries, whereas rental options would depend upon the size of "housing allowance" a particular beneficiary received. In summary, therefore, the majority of the solutions (upgrading and building loans) will be contained in sub-programs which have the capacity of servicing the widest range (10th-50th percentiles of income) of beneficiaries. Most site and service and core housing solutions will be affordable by beneficiaries in the 25th-45th percentiles of income.

### III. INSTITUTIONAL ANALYSIS

#### III.A. Ministry of Urban Development and Housing (MUDH)

The Ministry of Urban Development and Housing (MUDH) will be the most important GOK institution involved in project implementation. MUDH is responsible for the delivery of shelter solutions and services throughout the country as detailed in the National Development Plan. The primary institutional goal of this project is to develop a process whereby the GOK can deliver shelter solutions to the small towns; MUDH is the key actor in this problem solving process.

There are four sections of MUDH whose cooperation will be essential for successful project delivery; the Housing Department's Project Planning Unit (PPU) will be instrumental in overall project design and planning. The second principal section of MUDH is the Physical Planning Department (PPD) which coordinates and approves the issuances of all sub-division plans for Kenya's secondary towns. All shelter and community facilities programs proposed under this project must, therefore, receive the PPD's approval before actual construction can proceed. MUDH's production arm is the National Housing Corporation (NHC) which will be concerned with actual sub-program implementation. Finally, MUDH has supervisory control over the Village Polytechnic program which provides vocational training in construction skills in Kenya's smaller towns.

With such wide ranging responsibilities, MUDH's performance is crucial to the timely implementation of this project. Recognizing this fact, this project has been structured around efforts to provide sufficient technical assistance to reinforce the current GOK efforts to strengthen this Ministry. The project is designed to reinforce this reform effort.

MUDH responsibilities in the area of planning and urban development have been expanded as the PPD was transferred earlier this year from MLG. The transfer is still fresh, and it can be expected that new urban development activities, such as the formation of the PPU, will greatly assist the process of centralization of functions.

The NHC is the production arm of the MUDH and was involved as the Borrower in the previous HG financed project in some of Kenya's larger secondary towns. Although the early project encountered some difficulties, the NHC was able to construct and to market shelter solutions in the designated towns substantially as called for in the project agreements. The NHC achieved this goal without any technical assistance and during a period of staff transition and high annual inflation. AID and NHC have learned many lessons during the implementation of the first project. Technical assistance proposed for the new project is targeted to those areas of insitutional weakness demonstrated in the implementation of the first project. Annex F to this paper, "AID Program Design Response to Kenya Housing Guaranty Evaluations", lists some of the institutional design solutions adopted for this Kenya small town shelter program.

During the 5 year implementation period for the previous HG financed secondary towns project, the necessity for some degree of institutional change and strengthening of the NHC has been noted by both AID and the GOK. The first stages of institutional transition are currently in progress. A World Bank financed consulting firm is now engaged in an institutional analysis of the NHC to determine the optimal

organization and staffing pattern appropriate for implementing nationwide low income housing projects in the smaller towns. The study will be concluded by September 1980, and the timing of the consequent changes will have an important bearing on the implementation of this project. Preliminary reports indicate that the NHC will be given a program for reorganization along functional lines which will permit better implementation of the type of project proposed herein. Some of these consultant materials have been available to AID during the project design stage. The shelter program presented in this Project Paper is designed to support the NHC restructuring efforts.

The initial consultant conclusions suggest a need for a clearer identification of the functions of the NHC and a modest regionalization. It is proposed that MUDH through the PPU should perform initial project design and planning. These reports would then be sent to the NHC for acceptance and implementation. Further, the NHC's responsibility for low income housing would be functionally distinct from its other housing duties. It is recommended that the NHC should establish systems and procedures for local authority management of housing and upgrading schemes and monitor their performance.

A significant reform is the proposal to establish divisional project manager's offices at four locations outside of Nairobi. These local NHC offices would improve control and facilitate communications with local authority officials. All of the eleven towns suggested for this program are within 150m from a proposed district office.

AID believes that the significant proposed institutional reform of the NHC has been stimulated, at least in part, by the implementation experiences of the initial program. Institutional strengthening and reform of national shelter agencies is a major goal of the Kenya projects, but it is a goal which requires some amount of time for achievement. RHUDO/Nairobi believes it is essential to continue the close relationship with all parts of MUDH to achieve the desired institutional outputs. This program activity supports efforts for institutional change; delaying program activity might well imperil the reform efforts now underway.

### III.B. Ministry of Local Government (MLG)

The Ministry of Local Government (MLG) has the primary responsibility for overseeing the operations and financing of the local authorities. Financial oversight includes the approval or amendment of authority's budget, authorization of senior staff changes, and, through the Local Government Loans Authority, approval of limited loans for town infrastructure. MLG through training institutions, such as the Kenya Institute for Administration, carries out programs designed to upgrade the capability of local authority officers.

Significant reforms have recently been introduced into the MLG following the conclusion of negotiations with the World Bank for the Second Urban Project. AID believes that these changes will greatly assist local authorities in administering this program. The MLG has agreed to establish a central property valuation unit which will provide assistance and training to local authorities. In addition, as part of an effort to strengthen MLG so that it can better advise, assist, and monitor local authorities, the Ministry is introducing regulations controlling the accounting and financing of housing and related activities. The MLG has been involved with the project design for this program and is fully supportive of the program as presented in the Project Paper.

### III.C. Commissioner of Lands, Office of the President

The Commissioner of Lands plays a central role in the allocation of public land for housing estates and in the approval of the sub-division plans prepared by the PPD. All project land reservations and site plans will have to be approved by this office. Land matters are particularly complex in Kenya due to the mixed tenure rules created by traditional and colonial administrators. Although the Assistant Commissioner of Lands attended and participated in the seminars held in the project design stage for this program, significant attention will have to be paid to this office by the project coordinators. Land approval delays of up to 18 months were experienced during the initial secondary towns project; such problems can be avoided through timely initiatives.

### III.D. Local Authorities

There are various categories of local authorities depending upon the size of the town (county, urban and municipal councils). To differing levels, local authorities are responsible for some planning, development, and maintenance of local infrastructure in conjunction with central government agencies. The central government retains primary responsibility in the areas of primary education and health care.

All of the towns are governed by an elected council (with some members appointed by the MLG). Local authority finances derive from several sources, such as land taxes ("rates"), poll taxes, agricultural levies ("cess"), license fees, and charges. The capital budget is drawn from either the NHC (for housing projects) or from the Local Government Loans Authority (for most other items of development expenditure). While it is possible to comment adversely on the level of local financial management, it must be recognized that the councils' position is not easy: revaluation of land must be done in Nairobi; there are few standard regulations regarding financial control and little technical assistance provided; and due to low salary levels, staff vacancies continue to be a real matter of concern. Nevertheless, preliminary project designs have outlined a general plan of action to assist local authorities in their revenue collection responsibilities. Increased technical assistance will be provided (both from the community development advisor supplied with DA funds and from the MLG), and more accounting functions will be centralized at the NHC (it is anticipated that monthly payment reconciliations will be computer performed at the NHC offices). Improved financial practices at the local level should result from this program.

None of the eleven towns identified so far for participation in this program will have primary responsibility for actual housing development. Implementation activities will be the responsibility of the NHC after the local authorities have made substantial policy input. All parties agreed that the seminars held during project design with the participation of representatives from the local authorities, central government, and AID must remain as a central feature of this project.

### III.E. Other Involved Institutions

The Ministry of Basic Education has financial responsibility for meeting the capital and recurrent costs of primary education in the program towns. The Ministry of Health provides preventive and curative health services in each town, through a District Hospital, and outside the project towns through a network of health centers.

The Ministry of Water Development has broad responsibility for the development, operation and maintenance of public water supplies. Of the program towns, Nyahururu is the only one with its own water authority. The Ministry, in coordination with the Ministry of Local Government, undertakes the development of sewage systems.

Coordination of women's programs comes under the Women's Bureau of the Ministry of Culture and Social Services. Employment promotion is a responsibility of the Kenya Industrial Estates Program in the Ministry of Industry.

It is expected that the proposed project, by requiring a linkage between GOK agencies, coordinated by the P.P.U., will greatly reinforce the GOK program to increase general development activities in the nation's small towns, and will create a more comprehensive perception of the priorities and the available resources.

#### IV. TECHNICAL ANALYSIS

##### IV.A. Existing Physical Conditions/Needs in Secondary Towns

The eleven towns exhibit an interesting degree of diversity of geographical location and topography, of function, of relative wealth and, largely as a result of these factors, of needs for urban development. By way of illustration a chart has been prepared, comparing the needs for urban services of six of the towns. See Table IV-1. These towns range in size from Nyahururu and Murang'a with populations of 15,000 to Londiani and Kitui with populations of about 4,500 each. In all of the towns, deficiencies are found in community facilities and basic services. Water supply is often seen as a major problem, but in many instances, there are current plans for improving the overall supply if not individual household access. Few houses are connected to any type of sewer system, relying instead upon pit latrines. This lack of modern sanitary facilities is perceived locally to be a serious problem. Another common problem is the shortage of adequate housing. In Nyahururu, the consultants indicate that about two-thirds of the households within the urban boundary (about 2,000 families) live in inadequate conditions without access to basic services. While this may be one of the more extreme cases, there is a need for improved shelter in all of the towns

##### IV.B. Proposed Program Activities

In response to the identified shelter needs of the secondary towns, a broad program has been formulated consisting of a range of new construction and community upgrading activities, technical assistance and training for GOK and local institutions, projects to provide new shelter and special demonstrations geared to energy conservation, improved health or safety and lower cost of shelter. While certain components may be undertaken independently, others are interdependent and will require an integrated approach to project development. The needs and capacities of each town will be carefully assessed in formulating an appropriate set of program activities. As implementation progresses, some activities may be added to the program of a particular town. It is also possible that changing circumstances may require that certain planned activities be deleted. In any event, not all proposed activities are appropriate to every town.

###### IV.B.1. Community Upgrading

One of the principal objectives of the program is to upgrade the services and facilities available in small towns thus improving the quality of life of the residents. A distinction may be made between residential areas which are inherently temporary (due to land tenure or physical characteristics which make them unsuitable as permanent communities) and those areas likely to remain permanent residential communities. The level of investment will obviously be greater in areas likely to remain as permanent communities yet some level of upgrading is justified even in temporary areas if relocation seems unlikely in the near future. In the temporary communities upgrading may be focused on socio-economic programs and on the extension of public utilities essential to health and sanitation. In more permanent communities, improvements might be extended to include:

- a) **Public Infrastructure.**  
Water reticulation to each plot; sewer reticulation or assistance with construction of improved on-site sanitary facilities; grading and paving of roads and pathways; and surface water drainage. The technical standards now being considered for the new Kenya Building By-laws are recommended for use in this program.

**TABLE IV-1**  
**NEEDS AND PRIORITIES**

Town	Needs Noted During Our Discussions							
	Housing	Water	Electricity	Sewerage	Markets	Access Road	Transport	Community Facilities
Iloma Bay	Low cost housing recognized as a high priority also great need for improvement of existing housing areas	To extend current scheme noted	To improve supply for expected industrial development	Expand existing scheme	Expand current market	Access for estates	Expansion of Bus Park	Primary Schools
Karatina	Improvement to middle income housing estates noted also further new housing required but no land available	MOWD to take over water functions	Lighting for estates	Expansion to estates	Modern market required	Access roads	Bus Park	None noted
Kitui	Required housing schemes of all types	MOWD to take over water functions	Single phase supply only needs to be upgraded for industry	Sewerage needed	Improvements to market	Access roads	Bus Park currently not used enough	Social Hall and Stadium
Maivasha	Site and Service Schemes not welcomed need for upgrading and low density housing stated	Expansion of water supply to existing estates	Lighting for estates	Sewer scheme planned	Modern Markets and shelter for light industry		Bus Park	Community Hall
Nyahururu	Accepted need for new housing of all types noted need to ensure site and service allottees can afford to develop	Water supply to be taken over by MOWD and improved	Lighting for estates	Expansion to Estates	Expansion required	Improvement to some access roads		Improvement to Stadium
Siaya	New housing of all types needed. Have approached NMC for assistance	Expansion of existing supply	Lighting for estates	Sewerage planned	Finance for market already required but would like a larger market	Trunk roads to Kisumu paved to boundary would like to pave main access roads	Bus Park	Community Hall and improvements to Stadium

**Notes:** We have attempted to reflect objectively the views of local representatives and officials but these views do not represent the collective or official views of the Councils concerned.

- b) **Home Improvement.**  
Expansion or improvement to individual dwellings.
- c) **Community Facilities.**  
Social centers; health centers; schools and market halls.
- d) **Community Services.**  
Waste collection; health care; fire protection; and special education. Individual programs must be formulated to meet specific situations. Some of these can be organized at little or no cost to community residents. An example might be the use of private taxi (matatu) drivers to provide emergency ambulance service or the use of a peace corps volunteer to provide health and hygiene training or to demonstrate the use of fuel efficient stoves.
- e) **Employment Generation.**  
Development of plots for small scale industries, in cooperation with GOK program of small business loans, marketing assistance and special skills training.

#### IV.B.2. Provision of New Shelter Options

The number of new plots or units developed in any one town is not likely to be very great by comparison to the number of households affected by upgrading activities. A project as small as 50 plots may represent an increase of 10% of the housing stock in a given town. Thus the solutions must be carefully planned and earmarked to match the range of affordability and specific requirements of intended beneficiaries. In order to more closely match the specific requirements of a particular town a number of optional solutions are outlined.

- a) **Serviced Plots:**  
In towns served by sanitary sewers, plots of approximately 150m<sup>2</sup> will be the norm. In towns where no sewage system exists plots sizes of up to 300m<sup>2</sup> may be used to allow for on-site sewage disposal. The larger plot scheme will allow adequate space for vegetable gardens which are common in smaller towns and are highly desirable as a means of reducing family expenditures. In conjunction with the larger plot scheme a site layout will be used which facilitates subsequent subdivision of the plots for sale or rental following installation of sewer lines.
- b) **Expandable Core Houses/Rental Housing:**  
The NHC has considerable experience with construction of expandable core houses. The basic unit consists of a "wet core" including a W.C. and shower and a large kitchen/storage room or a smaller kitchen and a separate habitable room. Extra rooms can be added by the occupant according to his resources and requirements. Rental houses may be similar in design. The materials and building technology used would reflect regional differences. The interior lay-out of the units should reflect local preference. For example, some groups traditionally do not cook inside the house, while others do. Sleeping arrangements also vary as does concern for privacy.

- c) **Demonstration Houses/Building Loans:**  
In conjunction with the sale of service plots and core housing projects, a demonstration component or a Building Loans program may be organized. The demonstration programs will be coordinated with the Kenya Renewal Energy Program and will make extensive use of resident Peace Corps Volunteers. Demonstration programs will have several general objectives including energy conservation, cost reduction, training and employment generation. Specific demonstration techniques may include the use of locally available materials for construction of low cost permanent houses, or the use of pile foundations, or floating foundations to reduce costs of construction on expandable clay soils. Alternatively, the demonstration aspects may be confined to a single element of the house such as a waterless composting toilet or a fuel conserving stove or perhaps passive solar design to warm the interior of houses built in the colder, high altitude towns. Demonstration projects may incorporate technical assistance or social services dimensions as well as a building loan program.
  
- d) **Market Price Plots:**  
In order to off-set the high investment costs associated with developing serviced sites, it will be desirable in some towns to include a number of plots for sale to higher income households on a cash or private financing basis. While HG funds would be used to develop these plots, no long term mortgage financing would be provided. The plots would be large, allowing for detached, semi-detached houses, or maisonettes of two or three storeys.
  
- e) **Cooperative Housing Site:**  
On an experimental basis, one or more sites may be developed by the National Cooperative Housing Union. In these cases, all on-site work including subdivision, reticulation of water and sewer lines, etc. would be left to the cooperative and its members. Material loans would be offered. Site development and building standards would be similar to the NHC projects.

#### IV.B.3. Special Studies/Demonstration Projects

HG funding is being provided for self-help housing aspects of the demonstration elements described in this paper. Supplemental funding is being sought for several special studies and for the technical assistance components of those projects aimed at demonstrating the viability of replicable energy conserving shelter or shelter service solutions. If funding is available, the following techniques may be applied:

- a) **Wind Powered Pumping Stations** - A demonstration of the use of windmills to improve water supply in Homa Bay or other suitable towns.
  
- b) **Micro-Hydro Power Generation** - A demonstration of the use of small scale hydro-projects to provide power for an entire community or for the operation of public facilities and street lighting depending upon the available potential.

- c) **Bio-Gas Power Generation - A study of the consequences and alternatives to use agricultural and domestic wastes for production of electrical power for street lighting and public facilities in Siaya.**
- d) **Household Energy Budgets - A study followed by practical demonstration of energy-saving potentials in low income households including the use of passive solar design for space heating, fuel efficient stoves for heating and cooking, and composted domestic waste for on-site vegetable gardening. The study may include an assessment of the effects of various interventions on energy requirements and expenditures at the household as well as community level. Technical Assistance would be used to facilitate broad acceptance of the demonstration.**

#### IV.C. Environmental Considerations

The IEE prepared in June 1979 indicated that it was premature to discuss key environmental issues for the secondary towns as fieldwork had not at that time been undertaken. The IEE concluded - "Therefore, at the Project Paper stage, an environmental component (investigations and input into site locations and designs) will be integrated into the team effort." Infrastructure availability, physical environmental conditions, and the direct and indirect effects on regional development patterns were cited as areas which should be analyzed. Consultant reports have been prepared covering these and other aspects of each of the eleven towns. By way of illustration potential projects are suggested in the consultants' report for three of the towns and potential sites for new development are identified. While each of the sites suggested by the consultants appear to be reasonably well suited to the purpose, final site selection must rely on a set of appropriate criteria to assure that the best sites available are obtained. AID will require the drafting of acceptable site selection criterias by the GOK and the conformance of sites selected as a condition of project implementation.

The upgrading of community facilities and urban infrastructure will be a basic component in each of the towns. Extension of water supply, road grading, paving of roads and paths and provision of proper drainage, trash collection and access to health services and education will be found in greater or lesser degree in all the towns. Other components will vary from town to town including the disposal of domestic sewage.

Waterless composting toilets are proposed in those communities not served by waterborne sewer systems. The Reed Odorless Earth Closet and the Ventilated Alternating Pit Latrine both offer vast improvements over the pit latrines commonly in use throughout Kenya. They require relatively little maintenance and infrequent emptying (once every two years). They are relatively safe in that the material to be removed is free of pathogens, having composted for at least a year before being opened. One possible drawback in using these systems is the potential for contamination of ground water. In areas where this possibility exists it is suggested that use of composting toilets be considered. Waterborne sewer systems will be used in those towns already having such systems but only if existing treatment is upgraded or determined to be adequate for the protections of fisheries and/or downstream water supplies. New waterborne systems will be introduced only after sufficient study indicates that the costs of treatment can be borne and that long range water supplies are adequate for the greatly increased demands of a waterborne sewage system.

Throughout most of the towns, existing residential areas suitable for upgrading, as well as sites identified for new development, have moderately sloping, well drained soils. There are, however, a few exceptions, and in these cases the project is designed to meet the particular site constraints. For example, the Maina village upgrading site in Nyahururu is built on rather steep slopes requiring special attention to halt the severe erosion now taking place. In Homa Bay, highly expandable black cotton soils cover most of the town. This type of site requires special building techniques such as floating slabs or foundations raised on pilings, or alternatively, complete removal of the soil before construction. In Siaya, one of the sites identified, is virtually flat and will require special attention to drainage if it is to be used.

In towns around Lake Victoria, the high incidence of Malaria and Schistosomiasis suggests a critical need to eliminate standing water throughout the community and to improve access to safe water supply. Extension of water supply and drainage are, therefore, prominent components in the illustrative projects recommended for both Homa Bay and Siaya.

## V SOCIAL ANALYSIS

### V.A. Location of the Target Population

A census was taken in 1979 and provisional figures are available which indicate the hierarchy of urban places in Kenya. Though the figures are not official, and though there has been considerable discussion as to their accuracy, it is accepted that Nairobi has a population of around 850,000, accounting for about 43% of the total urban population, with Mombasa next at around 350,000 - 18%, and Kisumu third with 15,000 or 8%.

For the purpose of shelter programs, it seems appropriate to refer to secondary towns as all urban places other than Nairobi, Mombasa and Kisumu. These three have a character and critical urban mass which set them apart, and they account for 69% of the nation's urban population. Table V-1, below gives the population for the initial eleven towns that the GOK has asked AID to consider for this project; it is possible that GOK might suggest additional small towns for AID consideration in the future.

TABLE V-1

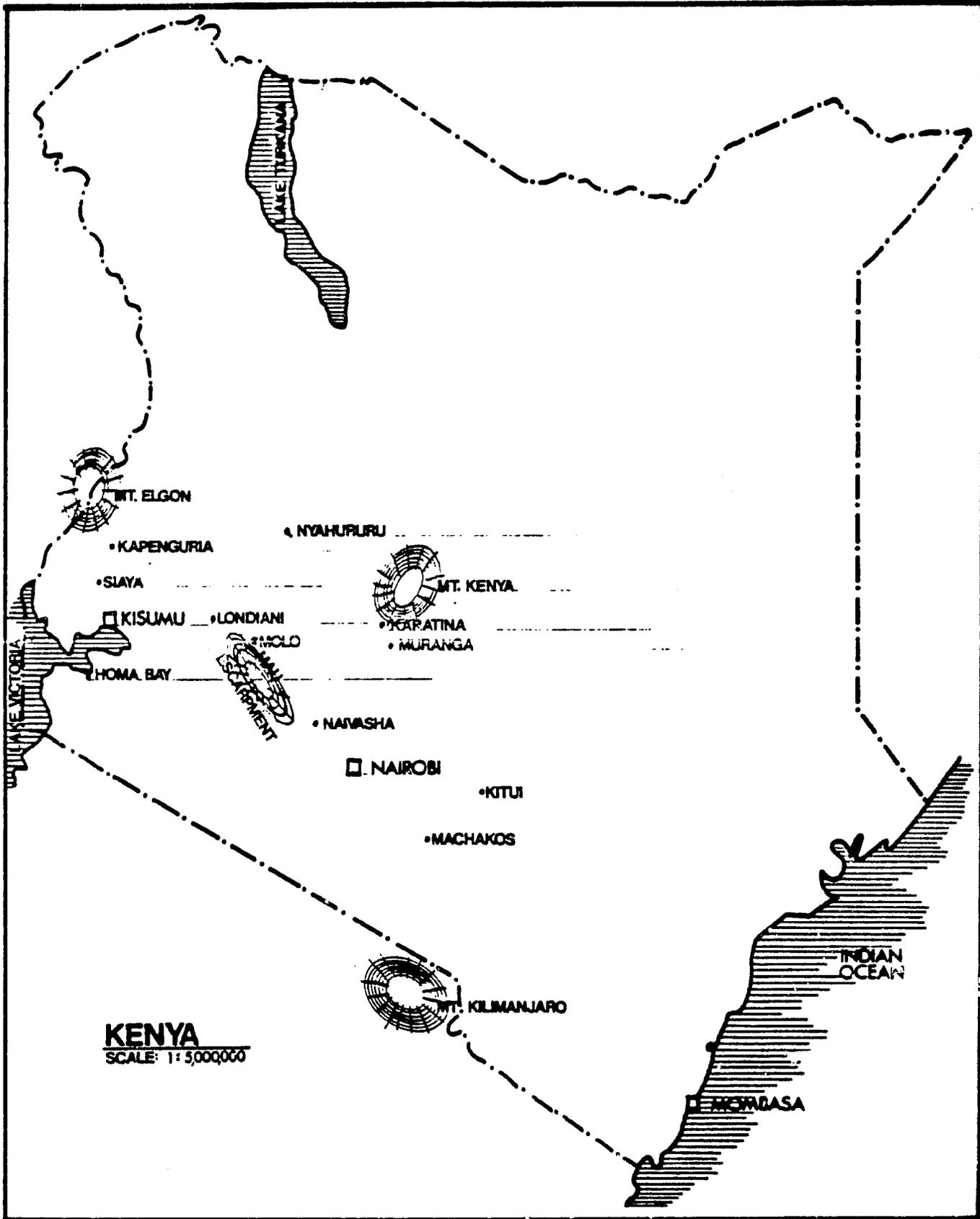
#### Initial List of Towns Chosen for this Project

<u>TOWNS</u>	<u>POPULATION</u> (provisional 1979 census figure)
Murang'a	15,000
Naivasha	11,000
Nvahiruru	11,000 (15,000)*
Machakos	9,800
Homa Bay	7,400
Molo	5,300
Kapenguria/Makuto	4,800
Londiani	4,400
Kitui	4,400
Siaya	4,000 (10,100)*
Karantina	2,900 (10,000)*

\*Because of definitional limitations created by use of the formal town boundaries these town populations may be understated. The population served may be the estimate shown in parenthesis.

### V.B. Social Profile of Secondary Towns

Smaller towns in Kenya, such as the eleven targeted for this program, are in a transitory stage from rural to urban, and their characteristic function and level of services differ from both pure rural and pure urban (represented by Nairobi, Mombasa, or Kisumu). Since more than 75% of Kenya's population occupies only about 12.5% of the land area, substantial movements of people from rural to urban areas, including the smaller towns, are constantly taking place. The dynamics of population movements into the smaller secondary towns have not yet been sufficiently analyzed. Data, therefore, is still scanty, and all generalizations are made with some degree of caution.



The dominant factor about these towns is their dramatic rate of growth (many having growth rates from 5-10% per year). Migration from rural areas to these rapidly growing secondary towns is selective with respect to sex, age, and education. There is a very strong association between the degree of education received and the incidence of urban migration. Men between the ages of 15 - 25 are more likely to migrate to the towns than are women. This fact is perhaps explained in part by the relative levels of education of male and female children. A reverse stream representing "retirement migration" has also been identified as involving older men moving back to the rural areas. There is some indication that migration to the smaller towns or to rural areas is distinguished by a desire to settle permanently in the place of destination. This would mean that these towns would see a larger share of young family (as opposed to single male) migrants.

The consulting firm retained by RHUDO to carry out preliminary design studies for this project drew the following profile of the target population. These below median income families live in settlements which feature high density, inadequate public facilities, and small one room housing units built with "temporary" materials. Cooking is done with charcoal or wood. Water is obtained from shared common faucets or from water sellers. A random, informal survey of residents revealed problems with sanitation and sewerage disposal, roads and drainage, water supply, schools and markets in addition to shelter complaints.

Rental is the predominant form of tenancy. Because of the high demand for even minimal housing, resident families may well rent out whatever space is available. Rental income is often a principal source of family income. The proposed program will attempt a realistic policy of total sub-letting regulation rather than prohibition. It must be recognized, however, that Kenyan rental practices are long established.

Kenyan statutory law grants women the right to own property. However, few title deeds are in fact held by women. Technically men and women have equal access to credit facilities. However, a recent study of mortgage loans showed only 3.5% were allotted to women applying separately. Some financial institutions require that a woman obtain her husband's consent prior to applying for a loan.

This small towns program will offer women equal access to tenant purchase plots and loans, and this policy will be publicized, aiding Kenyan women in the realization of their full legal rights. Female headed households make up about 20% of the total. Special attention will be given in this project to ensure that female allottees who head households are given the opportunity to register plot titles in their own name.

In the indigenous extended family system, child care is shared among available women and older children. Modernization has brought increased formal education; this has benefited not only children but also mothers, who now have more time to work or continue their own studies. Project school facilities will provide women with greater freedom to seek education and employment. Finally, the employment generation program will endeavor to advance the role of women in business. Kenyan business laws are generally unbiased sexually. However, as a result of differential access to financial and educational resources in the past, men are often more able to engage in larger-scale business ventures than women. It is the lack of access to credit and other resources that this program will attempt to remedy. Equal access to small business plots as well as access to technical assistance will be promoted.

**V.C. Economic Profile of Secondary Towns**

The compilation of an economic profile of the residents of Kenya's secondary towns is complicated by the fact that family members may have jobs in more than one sector: the household head may be a small scale farmer or herdsman on the urban fringe while other members of his family work in non-farm occupations.

Analysis of official data dealing with 19 secondary towns excluding Nairobi, Mombasa and Kisumu suggests that the median monthly household income in 1980 is approximately KShs. 1200 (US \$166). (See Table V-2). The variety of incomes for each of the towns, the inaccuracies which are inherent in attempts to estimate median incomes for towns for which good data do not exist, and the fluidity of change which can be expected in the different places, suggest that a median covering all of Kenya's secondary towns should be applied as the appropriate indicator for project cost limitations. In this way a range of solutions can be designed which will reach families with incomes as low as KShs. 500 per month, a range that in most cases, will cover from the 25th to the 50th percentile of the income distribution.

TABLE V-2  
1980  
MEDIAN INCOMES  
(for 19 Secondary Towns Excluding Nairobi, Mombasa, and Kisumu)

	AVERAGE		MEDIAN	
	US \$s	KShs.	US \$s	KShs.
Formal Sector Wages	110	800	73	530
Casual and Other Wages	106	770	70	510
Informal Sector Incomes	97	705	73	535
Other Incomes - Total 25%				
Excluding Rent	123	895	94	680
10% Outside Town Boundary	111	806	84	610
Adjust for 1.4 Income Earners per Household	155	1128	118	855
Adjust for Wage Inflation 1977 - 1980 35%				
	<u>207</u>	<u>1500</u>	<u>165</u>	<u>1200</u>

It is expected that projects will be presented for approval from different towns at different times, and that the overall project will take five to six years to complete. The use of a median income covering all secondary towns will permit simple adjustment of the figure to reflect inflation and other upward effects, and will relieve project administrators of the need to conduct detailed income surveys in every town for every project to be considered.

**V.D. Settlement Patterns of Secondary Towns**

The accompanying Table V-3 represents an initial attempt to define an urban settlement typology for Kenya. The five types of settlement patterns may all be present in a major urban area while combination of types is more common in the smaller towns. This typology is presented as a guide to the varieties of situations this project is likely to address.

TABLE V-3  
Settlement Patterns: Kenya Secondary Towns

Type	Alternative Type of Tenure	Population Density (ppa) Layout and Construction	Public Utilities	Employment and Commercial Activity
I Semi-Permanent Rural	Registered squatter Eligible for re-settlement plot	Less than 150 ppa. Traditional layout of building and "shambas"	Water from nearest springs, wells or permanent buildings (inadequate)	Subsistence farming Local Markets  Few established shops within housing area
	Unregistered squatters  Traditional tenant status e.g. Kikuyu	Mainly traditional mud and wattle circular huts with thatched roofs	Pit latrines (adequate)	
II Semi-Permanent Urban	Registered and un-registered squatters on private and publicly owned land	More than 150 ppa.  Informal village layout Mainly rectangular plan: mud and wattle with some scrap materials, corrugated iron roofs	Water obtained from nearest source  Some area have established mains connection (inadequate)  Pit latrines (inadequate)	Some wage employment outside the area  Much self-employment within the area  Large number and variety of shops and service commerce within the area e.g. cafes, bars, laundry, shoe repairs, hair-dressers, etc
	Illegal development by legal owner growing number of land-buying and house building cooperatives and companies offering plots to shareholders and rented rooms to non-member tenants			
III Temporary Urban	Illegal development on public or private Land  Unregistered squatters	More than 150 ppa.  Disorderly layout  Entirely scrap materials	No facilities	Casual employment  Self employment  Wage employment
IV Temporary and Semi-Permanent Infill	Illegal development on public and private land either by squatters or by plot owners	More than 150 ppa.  Scrap materials  Rectangular plan weather boarding with scrap and corrugated iron roofs	Facilities of the surrounding area	Wage casual and self employment  Shop in surrounding area
V Permanent Urban	Tenant purchase, tenant of public body  Sub tenant of legal occupant	More than 150 ppa  Concrete, stone conforming to building bylaws	Usually all services provided each dwelling	Wage employment  Self employment  Casual employment

Some tentative generalizations can be drawn from the type of settlement pattern encountered. This type of preliminary analysis may assist in identifying upgrading possibilities for HG funding.

Recent arrivals in the city are likely to rent rooms or stay with relatives in community types II, IV or V. However, legal tenants in type V communities (which include all new formal sector projects) are seldom recent arrivals. A recent study of 21 site and service schemes throughout Kenya found that the mean length of residence in the project town was nearly 20 years. Type III communities usually develop when a type I or II community has been demolished by the government action or other event. Type I communities are passively urbanized villages established outside of a city and eventually engulfed by it. Because each of these community types represents different sets of physical and social conditions, each requires a different assistance approach.

## VL ECONOMIC ANALYSIS

### VLA. Economic Overview

During the first ten years after independence in 1963, Kenya's economy exhibited high and relatively stable rates of growth. Real gross domestic product (at Factor prices) grew at an average rate of 6.6 percent per year, and per capita GDP rose at an average rate of 2.9 percent. Kenya's second development decade has so far been less promising. GDP growth during the period 1974-79 has averaged only 4.4 percent annually, and per capita GDP growth has averaged no more than 0.5 percent. This second decade has demonstrated Kenya's vulnerability to external economic events including the oil price increase beginning in 1973, the international recessions of 1974/75, and the collapse of the East African Community.

Since 1973, Kenya's growth has been closely related to changes in its external terms of trade as is suggested by the data indicated below.

YEAR	1972	1973	1974	1975	1976	1977	1978	1979
Terms Of Trade	100	97	85	78	91	120	103	95
Growth Rate Of GDP	6.8	4.3	1.1	4.1	2.4	8.8	6.6	3.3

The quadrupling of oil prices in 1974 was accompanied by a drop in the growth rate to 1.1 percent (i.e. minus 2.8 percent per capita). Economic revival was touched off by the boom of 1976 and 1977 when unprecedented prices were reached for Kenya's two principal agricultural exports, coffee and tea. Kenya's economic performance peaked in 1977 when a growth rate of 8.8 percent in real terms was achieved. Thereafter, export prices began to fall while oil and other import prices continued to climb. The growth rate fell to 6.6 percent in 1978 and to 3.3 percent in 1979.

Despite more than a decade and a half of substantial economic growth, Kenya remains a poor country, with a 1979 GDP estimated at \$347 per capita. Population continues to grow at nearly 4 percent per year implying the need to create nearly 8 million new jobs by the year 2000. The inflation rate is approximately 13% per year and has remained fairly constant.

Given limited agricultural resources, nearly half those jobs may have to be found in urban areas. Kenya's original 1979-83 development plan emphasized increasing incomes and improving income distribution through increased employment. Given restrictions on growth implied by balance of payments constraints, original employment goals will not be met under this revised 5 year plan, and overall government expenditures during 1979-83 will be reduced from 9.0 billion dollars to 8.2 billion dollars (in constant 1979 terms). Two-thirds of the cuts will come from the development budget. Nonetheless, rationalization of industry and employment creation, especially in secondary towns, remain important goals of the current 5 year plan.

VL.B. Public Debt Level and Service Ratios

The drastic drop in world coffee prices in 1978 and an import surge in the first half of that year caused serious deterioration in Kenya's trade and balance of payments accounts. In December 1978 the government introduced various corrective measures including an import deposit scheme to curb the exchange out flow. These measures succeeded, and reserves increased in 1979 by just over 100 million Kenya pounds (U.S. 269 million dollars). Rigid import controls, however, were also one of the factors which contributed to sharply reduced growth in 1979. Kenya's willingness to apply orthodox fiscal and monetary policies in order to protect foreign exchange reserves also extends to protection of its external credit rating. Kenya's public debt more than doubled in five years to 577.9 million Kenya pounds as of June 30, 1979. Nevertheless, the net annual debt servicing charge has fallen from 56.1 million Kenya pounds at June 1978 to 44.5 million Kenya pounds at June 1979 as a result of the abolition by the United Kingdom of debt outstanding from Kenya. Service charges for external debt were equivalent to only 5.5 percent of earnings from export of goods and services in 1978 and 4.4 percent in 1979. Unless there are other offers to abolish outstanding debt, it seems most unlikely that this ratio will fall in future years. Kenya's external debt picture for recent years is summarized in the table below.

TABLE VI-1  
Debt Service Charges On External Debt Related  
To Export Of Goods And Service, 1973-1979

Year	Debt Service Charges On External Debt	Export Of Goods And Services	External Debt Service Charges As A % Of Exports Of Goods And Services
	(Million Kenya Pounds)		
1973	8.9	253.6	3.5
1974	8.6	357.2	2.4
1975	10.1	356.9	2.8
1976	12.0	471.7	2.5
1977	14.8	650.2	2.3
1978	31.2	566.8	5.5
1979	25.5	580.4	4.4

It does not appear that a \$16 million loan under this program would constitute a significant additional debt service burden. Given that the long term prospects for economic growth and development in Kenya are favorable, the injection of long term external financing, even on commercial terms, would also serve to ease the balance of payments difficulties now being experienced in Kenya because of the dramatic increase in the price of petroleum and other imports.

## VII FINANCIAL ANALYSIS

### VII.A. Project Costs

The total value of the project (including host country contributions but not all technical assistance) is calculated to be \$20,450,000 of which amount \$16,000,000 will be HG financed.

### V.II.B. Shelter Solution Cost Recovery

Capital cost recovery of the HG financing for shelter solutions types 1-4 (displayed in Table II-1) will be by means of the monthly repayments made by the beneficiaries; upgrading may involve some charges which a local authority may spread to all the town's rate payers. These payments are calculated on such a basis as to fully repay all capital costs involved including an interest spread to the NHC for loan administration and management. The rental units (shelter solutions type 5) have been designed with slightly progressive charges (increasing 5% per year) which not only will fully repay capital costs but also make a modest contribution to the project's positive cash flow.

The cash sale plots will be sold at market price (rather than cost price) without other restrictions. These sales will not only fully recover the capital investment but will provide a capital infusion to the borrower to underwrite project administration costs, especially for the upgrading sub-programs.

### VII.C. Community Facilities Cost Recovery

The principal local authority cost recovery mechanism for these facilities will be the general tax revenues, called "rates". To the greatest extent possible, however, a portion of capital and recurrent costs of community facilities will be recovered through user fees and charges. A detailed description of user and other fees in effect in most local authorities for specific community facilities follows in Table VI-1. AID will enter into a series of negotiations with relevant GOK agencies to arrive at a mutually agreeable course of action to augment revenues currently available to local authorities. A range of possibilities will be discussed including raising the town's general tax rate, increasing the amount of the annual central government grant, and exploring possible additional ways to increase and maximize local sources of revenue.

TABLE VII -1  
Community Facilities User Fees & Charges

<u>Facility</u>	<u>Amount of User Fees &amp; Charges</u>
Nurseries	User fees total 25% of recurrent charges.
Primary School	User fees for pre-school units total 100% of running costs, all other primary school education is free with 75% of teachers' salaries being paid by the central government.
Community Centers	No user charge for voluntary social, educational or cultural activities, but other events (musical shows, films, etc) carry a hire charge estimated at 5% of running cost.
Health Centers	Essentially no user charges since drug and staff costs borne by central government.
Playing Fields	Almost no user fees though some slight revenue raised through hire fees.

VII.D. Employment Generation Program Cost Recovery

Loans to beneficiaries will be for serviced plots. The average loan amount will be for \$2,840 (KShs 20,600). The principle followed will be to encourage fast roll-over of the money to enable it to be relent as rapidly as required. It is expected that apart from the technical assistance aid, there will be full cost recovery of all other capital and recurrent costs from business plot allottees. Preliminary discussions have been held between AID and the Kenya Industrial Estates (KIE) with a view towards establishing joint programs in selected towns. A joint program would involve use of HG funds to finance serviced plots and KIE subsidized funds to make building loans and for working capital. The local authorities involved will be responsible for remitting this portion of the HG loan directly to the Borrower.

VII.E. Cash Flow

As the various sub-programs are more fully developed in the initial project towns, a Master Project Delivery Plan including cash flow tables will be prepared. Each project component has been structured to ensure initial positive cash flow, full pay back to the Investor on schedule, and the generation of a capital base attributable to the HG loan. A preliminary cash flow appears as Annex D.

## VIII PROJECT IMPLEMENTATION

### VIII.A. Administrative Plan

#### VIII.A.1. Coordination

MUDH's Housing Department through the PPU will supervise overall project coordination. MUDH will be closely involved in the discussion and negotiation of the implementation of policy with local authorities and planning and land management agencies. The PPU will take direct responsibility for project identification and planning. Moreover, through its Monitoring Unit, MUDH will monitor the outcome of the various schemes.

The NHC will have the lead responsibility for coordinating actual implementation activities. The NHC will designate a member of its staff as the "USAID project coordinator". He will be assisted by the IPUP funded technical advisor.

National level coordination will be aided by the existing Inter-Ministerial Steering Committee composed of representatives of those agencies which have a direct role in the project. This committee will meet as necessary and will set the general policy framework and timing for participation in this program. MUDH has already formed this committee to consider USAID project design details.

#### VIII.A.2. Project Planning

Whereas the initial town shelter and community facilities sub-programs have been largely outlined already by consultants retained by RHUDO, the project planning for the remaining eight towns will be undertaken by MUDH's Housing Department through the PPU. This group may well add final details to the preliminary project design exercises already carried out. The activities of the PPU may well include the following functions which may be incorporated into an integrated development plan for each town.

- description of housing need and demand in each town;
- description of the number and type of housing units proposed and cost guidelines;
- an initial site survey;
- agreement with the Commissioner of Lands to reserve the necessary land;
- an analysis of associated social, community, and employment needs and a program for the provision of the necessary sites;
- a plan for control of land use and sale as required;
- an administrative plan for strengthening the local authority to enable it to manage the project as required and to finance services to the scheme.

To assist the PPU take over the burden of project planning, AID's strategy is to offer short-term consultancies in decreasing quantity to work with the civil servants. To assist in this transfer of responsibilities, AID has funded the preparation of a draft Project Preparation Manual for use in Kenya's small towns. It is anticipated that this assistance will enable the GOK to fully plan the actual shelter and community facilities sub-programs to be financed under this project. These activities will be incorporated into a Master Project Delivery Plan for USAID.

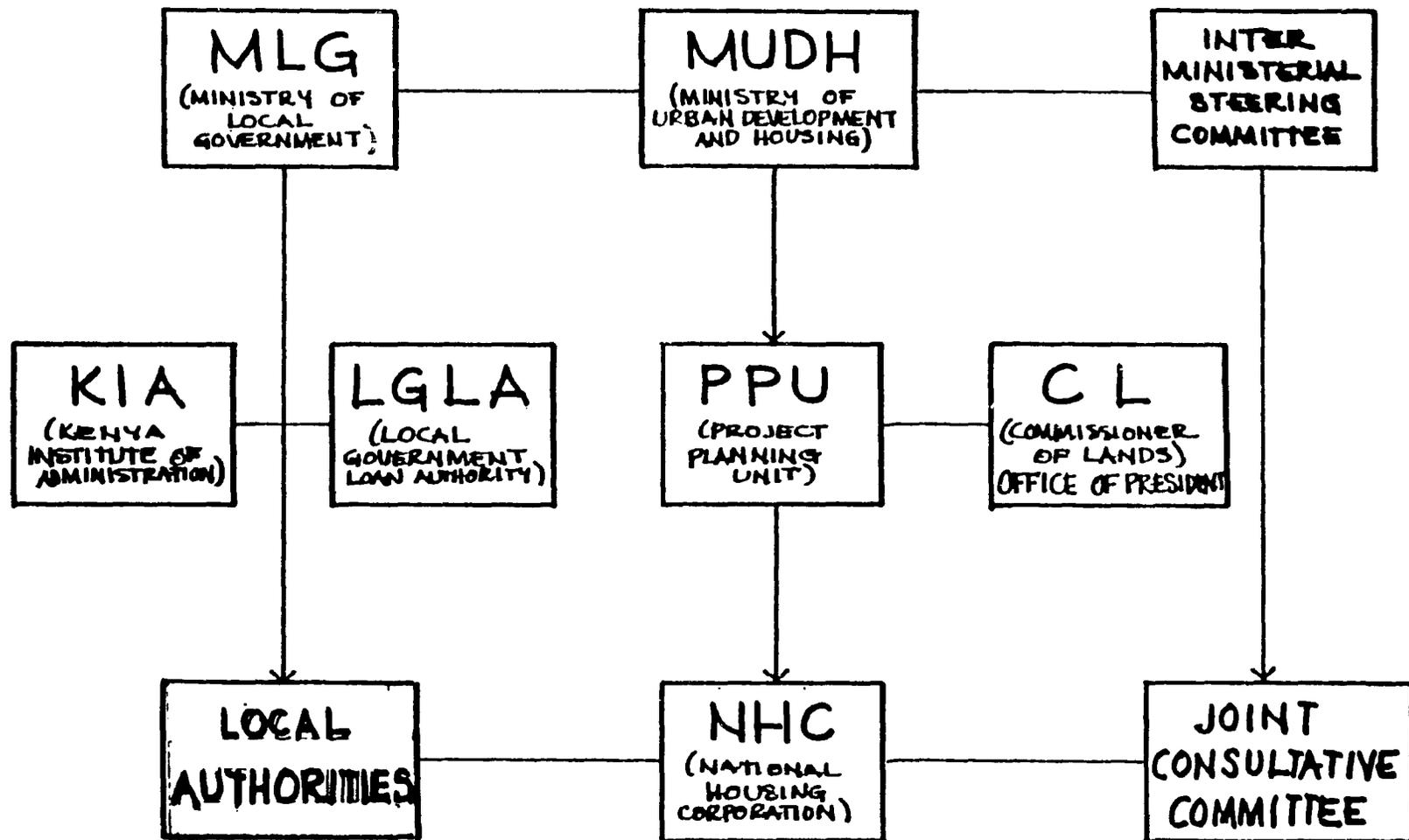


TABLE VIII.1

INSTITUTIONAL RELATIONSHIPS FOR  
PLANNING AND IMPLEMENTATION

All town development plans once prepared must be accepted by the local Joint Consultative Committee prior to further consideration. The Committee will be composed of representatives of the Local Authority, MUDH, including NHC, Ministry of Finance, Commissioner of Lands, and the District Commissioner. Once approved by this body, the plan would be submitted to the NHC for review in order to assess the feasibility of the project.

#### VIII.A.3. Project Design and Construction

Final design detailing, tendering, and construction supervision will be the responsibility of the NHC. Some portions of these responsibilities, however, such as design and engineering work, may be contracted out to other consultants or performed in-house by the NHC staff.

One of the primary purposes of this program is to strengthen and expand the capacities of the NHC to carry out the major shelter programs which will be required over the coming years. It would presently be premature to anticipate the Government's reaction to the study of the restructuring of the NHC. Nevertheless, implementation of this program will be made conditional upon the Government preparing a plan to show how the agreed upon recommendations will be implemented.

While the NHC will be the principal development agency for shelter elements, the individual ministries concerned will carry out this responsibility for selected community facilities. Construction of these elements will be undertaken through the Ministry of Works either directly or by private contractors. Nevertheless, AID will urge the Inter-Ministerial Steering Committee to allow the NHC as wide a range of responsibility as is legally appropriate.

#### VIII.A.4. Local Authority Role: Allocations, House Consolidation, Collections and Estate Management

Each local authority will take responsibility for allocation of shelter solutions and supervision of house consolidation through self-help construction. The local authority will also have entrusted to it the obligation for collection of monthly payments, for general lease enforcement, and for estate management.

Since all of these functions have proven difficult in the past for local authorities to accomplish, the NHC, with the technical assistance input provided through this program, will be required to strictly monitor performance. Two significant changes are planned for the new project compared with the initial program. First, AID will ensure that the agreement running between the NHC and the local authority be sufficiently precise and binding in spelling out the obligations of each party and empowering the NHC to step in and take over a sub-program for material breach of the agreement. Secondly, the tenant purchase agreements and leaseholds which previously have run between the beneficiary and local authority only will now include a clause allowing the NHC to step in and enforce their provision if the local authority does not. In this light a revised section of the lease dealing with the regulation (rather than prohibition) of total sub-letting will be strictly enforced. Other obligations, particularly with regard to estate management, will also be more strictly enforced in this program.

Improvement in the level of collections and in the timeliness of receipt of financial information is expected from the new centralized collections program anticipated for this project. While the local authorities will still make the actual collections, all monies will be immediately remitted to the NHC's central bookkeeping facilities. The NHC will computer process all collections records and automatically prepare statements and delinquency notices. Central processing of individual loan accounts is expected to greatly ease the administrative burdens on the local authorities and allow much more precise monitoring of the project's current financial condition.

As project implementation proceeds, the MLG will be asked to approve the appointment of additional or seconded staff to those local authorities experiencing financial or administrative difficulties. Preliminary discussions with the MLG have indicated their support for increased levels of technical advice and training for those local authorities involved with this program. Prior to their participation, local authorities will be asked to prepare a financial plan to show how existing debts and future repayments will be serviced, and how the on-going costs of shelter project administration will be met.

#### VIII.B. AID Project Management

The proposed project is a significant part of AID's bilateral assistance program to Kenya, and USAID/Kenya will be responsible for the policy framework within which it is implemented. The AID Office of Housing (DS/H) is responsible for HG program development, negotiation, and implementation within the Mission policy framework. The Office of Housing's responsibilities will be carried out by its Regional Housing and Urban Development Office (RHUDO) for East and Southern Africa located in Nairobi. The RHUDO will coordinate all activity with USAID/Kenya.

#### VIII.C. Project Monitoring and Evaluation

Evaluation of progress in meeting the outputs envisaged for the program will take place through RHUDO coordinated Regular Annual Evaluations. These evaluation reports will note any deviations from the project's purpose and scheduling and will present a detailed factual basis for such revisions of the program as may be necessary.

The reporting process will include periodic progress statements made by the NHC to AID. These reports will include quantitative measures of the physical progress of project components and will be structured so as to be compatible with the guidance of the DS/H Monitoring and Evaluation Manual. In addition, and as an integral part of continuing project evaluation and review, RHUDO will be responsible for monitoring project sub-programs and will receive scheduled reports from the Peace Corps Volunteers in selected towns and from the advisors provided under the technical assistance programs.

Recommendations of project modifications resulting from the evaluation process will be transmitted to the individual town Joint Consultative Committee as well as to the NHC and local authority concerned.

A body of expertise on shelter program and project evaluation has been developed by the University of Nairobi's Housing Research and Development Unit and the Bureau of Educational Research. In addition, private consultants under contract to the World Bank, the Commonwealth Development Corporation, and AID have made significant contributions. MUDH is presently setting up a Monitoring and Evaluation department to establish an appropriate GOK evaluation section.

It is anticipated that the RHUDO will call upon some of the existing Kenyan expertise to conduct an evaluation design exercise which will detail the types of base line and other data necessary to monitor Kenya's HG program (including the proposed small towns project). Special attention will be devoted to evaluation program design which provides for periodic assessment of the impact of improved housing on the health and welfare of the inhabitants. This exercise may receive FY 80 funding from USAID/Kenya's Project Design and Support program.

VIII.D. Project Agreements

The following agreements will be required:

1. Implementation Agreement: This agreement between AID and the GOK details the procedures for execution of the project, covenants, conditions precedent, the reporting requirements, and limitations on the uses of HG funds.
2. Guaranty Agreement: This agreement between AID and the U.S. Investor insures the latter against loss.
3. Host Country Guaranty: This agreement between the GOK and AID insures the latter against loss.
4. Loan Agreement: This agreement states the loan terms between the GOK borrower and the U.S. Investor.
5. Project Agreement: This agreement between AID and MUDH specifies the scope of work and contractual requirements for long term technical assistance inputs and host country contributions.

AG 1010-53 (7-71)  
SUPPLEMENT 1

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL  
FORM WHICH CAN BE USED AS AN AID  
IN THE PREPARATION OF THE FAF  
& RETAINED)

ANNEX A  
Title of Project: \_\_\_\_\_  
From FY 1980 to FY 1983 \_\_\_\_\_  
Total U.S. Funding \$16 million \_\_\_\_\_  
Date Prepared: \_\_\_\_\_

Project Title & Number: **Kenya Small Town Shelter and Community Development Project**

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>To improve the living conditions of low-income households living in the secondary towns and populated centers outside of Nairobi</p>	<p>Measures of Goal Achievement:</p> <p>Increase in the number and percentage of low-income households living in permanent housing and/or areas with access to community facilities and basic services.</p>	<p>1. Census data and household sample surveys.</p> <p>2. Reports of public works and social service agencies.</p>	<p>Assumptions for achieving goal targets:</p> <ol style="list-style-type: none"> <li>1. GOK policy to foster growth of 40 urban places outside of Nairobi is operational.</li> <li>2. Local authorities support GOK goal of reducing building standards in low-cost housing.</li> <li>3. Successful demonstration process for production of shelter and community development in small towns adopted and replicated by GOK.</li> </ol>

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Life of Project **ANNEX A**  
From FY 1980 to FY 1983  
Total U.S. Funding \$16 million  
Date Prepared:

Project Title & Number: **Kenya Small Town Shelter and Community Development Project**

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Purpose:</p> <p>To demonstrate improved methods for the administration of public sector low-cost shelter programs in small towns including community facilities and employment generation components with special attention to project identification, innovative design, and post-occupancy management.</p>	<p>Conditions that will indicate purpose has been achieved: End of project status.</p> <p>1. (a) The existence of a project identification process in MUDII which deals with low income community shelter needs in a comprehensive fashion. (By end of FY 81)</p> <p>By end of FY 82</p> <p>(b) the existence of staff capability at the NHC to carry out: project design mortgage lending home improvement lending home building assistance upgrading programs for low-cost &amp; better programs in secondary towns.</p> <p>(c) completed shelter projects in 11 secondary towns.</p> <p>(d) elective project monitoring and loan collections procedures in 11 town governments</p> <p>2. (a) an operational small business lending program for application in conjunction with shelter programs.</p> <p>(b) programs for improved income producing activities for community residents in shelter project areas.</p>	<p>1.-2.</p> <p>(a) Project monitoring and evaluation (b) GOK reports (c) Physical inspection (d) NHC and local authority loan records (e) PCV reports</p>	<p>Assumptions for achieving purpose:</p> <p>1. (a) GOK makes a concerted effort to establish a project identification section in MUDII and provide adequate staff.</p> <p>(b) NHC reorganization program is adopted, recognizing need for expanded regional outreach and adequate staff.</p> <p>(c) MUDII, MLG, and local authorities accept program to tighten financial administration and strictly control collections.</p> <p>2. MUDII coordinates shelter programs with community development programs of MLG MCSS and MBE</p>

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PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

USAID Project  
From FY 1980 to FY 1981  
Total U.S. Funding \$16 million  
Date Prepared: \_\_\_\_\_

Project Title & Number: **Kenya Small Town Shelter and Community Development Project**

PAGE 3

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Output:</p> <ol style="list-style-type: none"> <li>1. Low-cost shelter solutions core housing units Serviced sites Neighborhood upgrading Home improvement on building loans Rental units</li> <li>2. Serviced sites for cash sale</li> <li>3. Service sites for small scale businesses</li> <li>4. A small scale business development program for target area women</li> <li>5. Demonstration projects in energy saving, construction and sanitation technology</li> <li>6. Community facilities</li> </ol>	<p>Magnitude of Outputs:</p> <p>To be determined by the needs of each town, but estimates suggest the following breakdown.</p> <p>Upgrading - 1,000 Serviced sites - 400 Building Loans - 600 Core units - 300 Rental units - 400 Cash sale plots - 500 Serviced sites for small business - 200 Community facilities to be determined by town.</p>	<p>RHUDO monitoring and annual project evaluation.</p>	<p>Assumptions for achieving outputs:</p> <ol style="list-style-type: none"> <li>1. Local authorities accept slum upgrading as an acceptable alternative to slum clearance</li> <li>2. GOK shelter programs do not confuse the demand situation through subsidy programs.</li> <li>3. Cash sale and graduated rental programs are successful at balancing unit demand so that intended beneficiaries actually make use of the solutions provided.</li> </ol>

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

IIPUP Project:  
From FY 1980 to FY 1983  
Total U.S. Funding \$16 million  
Date Prepared:

Project Title & Number: **Kenya Small Town Shelter and Community Development Project**

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs	Implementation Target (Type and Quantity)		Assumptions for providing inputs:
1. <u>IG Loan</u>		1. Lender and borrower report	1. IG investor available
2. <u>Local Investment</u>	1. \$16 million Housing Guaranty Loan authorized	2. RHMDO monitoring and evaluation report	2. GOK accepts IG loan terms
a. GOK Participation	2. GOK contributes land, local staff salaries and support, community facilities, & employment generation assistance to a value to \$4,100,000.	3. IIPUP advisor reports	3. IIPUP advisor available
b. Beneficiary Down-Payments & Investment.	Beneficiaries provide \$350,000 for down-payments.	4. PC Reports	4. PC allotments provide for volunteers.
3. <u>Technical Assistance</u>	3. Development Assistance for \$665,000 authorized.		
a. Development Assistance	IIPUP Grant for \$280,000 authorized.		
b. IIPUP Grant	Nine - eleven PCVs assigned to small towns for this project.		
c. Peace Corps			

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TELETYPE UNIT, 3-11-79.  
UNITED STATES  
OF AMERICA  
DEPT. OF STATE  
WASHINGTON, D.C.

ANNEX C

FORM 1012

# TELEGRAM OFFICIAL FILE

ACTION: AID

UNCLASSIFIED

INFO: AFB 100 3001 ADM

Classification

7 AUG 79 09:00.

R 070196Z AUG 79  
FM SECSTATE WASHDC  
TO AMEMBASSY NAIROBI 5646  
UNCLAS STATE 225 008

## ACTION COPY

Action taken: \_\_\_\_\_

No action necessary:   
D.H. 8-7-79  
(Initials) (Date)  
*[Signature]*

AIDAC, NAIROBI PASS TO RHUDD

E.O. 12855 N/A

SUBJECT: KENYA LOW COST HOUSING PID (SIS-HG-025, 6)

1. REVIEW OF SUBJECT PID HELD JULY 12, 1979, WITH RHUDD REPRESENTATIVE IN ATTENDANCE. PID FOUND TO BE A COMMENDABLE DOCUMENT WITH NO OUTSTANDING ISSUES AND CONCURRENCE GIVEN TO PROCEED WITH PREPARATION OF TWO HIGS - ONE IN FY 79 FOR 2,052 SERVICED PLOT (700 WITH CORE HOUSING) EXPANSION OF THE UMOJA PROJECT IN NAIROBI, AND THE OTHER IN FY 80 FOR SITES/SERVICES, BUILDING MATERIALS LOANS, SQUATTER UPGRADING, COMMUNITY FACILITIES, AND SMALL ENTREPRENEURS LOANS IN ELEVEN TOWNS AND CITIES THROUGHOUT KENYA.

2. PROJECT COMMITTEE WAS PARTICULARLY IMPRESSED WITH SOCIO-ECONOMIC ORIENTATION OF BOTH HIGS WHICH GIVE COGNIZANCE AND SUPPORT TO OTHER ELEMENTS OF IMPROVED HOUSING - I.E., SOCIAL SERVICES AND JOB OPPORTUNITIES. ALSO FAVORABLY DISPOSED TO INSTITUTION BUILDING COMPONENTS OF HIGS TO DEVELOP THE CAPACITY OF THE IMPLEMENTING BODIES TO CARRY OUT LOW COST HOUSING SCHEMES. IN THIS REGARD USE OF IIPUP PROGRAM GRANT TO PROVIDE TECHNICAL ADVICE TO THE NATIONAL HOUSING CORPORATION AND PEACE CORPS

VOLUNTEERS TO WORK WITH SUBPROJECT TOWN COUNCILS TO ENSURE BETTER IMPLEMENTATION AND ADHERENCE TO SOCIAL GOALS ARE WELCOME ADDITIONS TO HIG PROGRAM. VANCE

AF

UNCLASSIFIED  
Classification

OPTIONAL FORM 1012 (M)  
(Formerly SF-412 (M))  
January 1975  
Dept. of State

50107-102

## MINISTRY OF URBAN DEVELOPMENT AND HOUSING

Telegrams: "Housing", Nairobi

Telephone: Nairobi 27461, Ext. ....

When replying please quote

Ref. No. .... HSS 66.1.3 Vol.I/(35)

and date



P.O. Box 45025

NAIROBI

..... 26th August 1980

The Permanent Secretary,  
Office of the Vice-President and  
Ministry of Finance,  
P.O. Box 30007,  
NAIROBI.

(Att:- Mr. W. Mayaka)

GOVERNMENT OF KENYA/USAID SECONDARY TOWNS  
SHELTER PROJECT

The first U.S. Housing Guaranty project for housing development in secondary towns in Kenya is now nearing completion. Many lessons were learnt during the execution of this project, and future projects will profit from this experience.

In anticipation of continued AID assistance in this area, we began discussions with AID officials last year which led to the designation and study of eleven towns for future AID assistance. The studies were completed recently and we believe that, as now conceived, the proposed Secondary Towns Shelter and Community Facilities Project will meet urgent needs in the designated towns, and help to define an effective process of project identification and implementation. A draft project paper in connection with this study was presented to your Mr. W. Mayaka on 8th August, 1980 for reference.

I understand that the shelter programme proposal for all eleven towns will be submitted to USAID in Washington for review and approval in August and September 1980 for potential programme funding available under the Housing Guaranty Programme.

The purpose for this letter is to inform you that this Ministry is interested in this project and it will be appreciated if you would facilitate in obtaining financing through the Housing Investment Guaranty Programme.

L. M. KABETU

( L.M. KABETU )  
PERMANENT SECRETARY

C.C.  
Pamela B. Hussey  
USAID,  
P.O. Box 30261,  
NAIROBI.

REPUBLIC OF KENYA  
OFFICE OF THE VICE-PRESIDENT AND MINISTRY OF FINANCE

ANNEX C

Telegraphic Address:  
FINANCE-NAIROBI  
Telephone: 334433  
When replying please quote  
Ref. No. ...EA...9/03...  
and date



THE TREASURY  
P.O. Box 30007  
NAIROBI  
KENYA

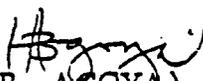
..27th August.... 19..80.

The Director,  
U.S.A.I.D.,  
P.O. Box 30261,  
NAIROBI.

GOVERNMENT OF KENYA/U.S.A.I.D. SECONDARY  
TOWNS SHELTER PROJECT

I wish to refer to the letter HSS 66.1.3. VolII/(35) of 21st August, 1980 from the Permanent Secretary Ministry of Urban Development and Housing which I note has also been copied to you. The contents of the letter are self-explanatory.

In support for the Ministry's wish expressed in the last paragraph of the letter, I confirm that the Kenya Government is interested in the project and request USAID to finance it through the Housing Investment Guaranty Programme.

  
(H. B. ACOYA)  
for: PERMANENT SECRETARY/TREASURY

C.C.

The Permanent Secretary,  
Ministry of Urban Development  
and Housing,  
P.O. Box 45025,  
NAIROBI.

## ANNEX D

PROJECT CASH FLOW  
(US\$)

PROJECT YEAR:	3	4	5	6	7	8	9	10	11-20	21-30	31-40
<b>INFLOW</b>											
1. AID/IG loan	15,783,100	—	—	—	—	—	—	—	—	—	—
2. Downpayments (core housing, sites/services, upgrading)	316,600	—	—	—	—	—	—	—	—	—	—
3. Sub-borrower loan repayments:											
a) Core units, upgrading, sites/services	902,300								9,023,000	6,316,000	
b) Building loan	172,600								345,000	—	
c) Small business plots	250,000								—	—	
d) Cash sale plots	1,257,300	1,257,300	—	—	—	—	—	—	—	—	—
e) Community facilities	132,200								1,322,300	925,000	
4. Rental income (5% increase per year)	182,100	191,200	200,750	210,800	221,300	232,400	244,000	256,200	3,383,400	5,511,300	1,461,000
5. Reinvestment income (13% per year)	—	165,000	434,500	470,600	612,000	553,300	585,000	614,700	2,790,700	11,532,000	2,900,500
6. Cash sale plot surplus	—	817,400	—	—	—	—	—	—	—	—	—
<b>TOTAL:</b>	<b>18,996,200</b>	<b>3,888,000</b>	<b>2,092,400</b>	<b>2,138,500</b>	<b>2,191,160</b>	<b>2,001,100</b>	<b>2,036,900</b>	<b>2,078,000</b>	<b>21,864,600</b>	<b>24,312,700</b>	<b>4,363,600</b>
<b>OUTFLOW</b>											
1. Application of IG loan											
a) Core housing	1,619,100	—	—	—	—	—	—	—	—	—	—
b) Site/services	298,400	—	—	—	—	—	—	—	—	—	—
c) " and material loan	1,532,600	—	—	—	—	—	—	—	—	—	—
d) Upgrading	539,700	—	—	—	—	—	—	—	—	—	—
e) " and building loan	2,916,900	—	—	—	—	—	—	—	—	—	—
f) Building loan	983,300	—	—	—	—	—	—	—	—	—	—
g) Rental units	2,923,400	—	—	—	—	—	—	—	—	—	—
h) Cash sale plot	2,215,800	—	—	—	—	—	—	—	—	—	—
i) Small business plots	926,100	—	—	—	—	—	—	—	—	—	—
j) Community facilities	1,012,500	—	—	—	—	—	—	—	—	—	—
k) Technical assistance	815,200	—	—	—	—	—	—	—	—	—	—
2. AID/IG loan repayment	1,815,100	—	—	—	—	—	—	—	19,786,400	20,195,800	4,079,200
3. Front end commission	158,600	—	—	—	—	—	—	—	—	—	—
<b>TOTAL:</b>	<b>17,756,700</b>	<b>1,815,100</b>							<b>19,786,400</b>	<b>20,195,800</b>	<b>4,079,200</b>
<b>NET CASH FLOW</b>	<b>1,239,500</b>	<b>2,073,000</b>	<b>278,000</b>	<b>324,000</b>	<b>376,000</b>	<b>186,000</b>	<b>222,000</b>	<b>263,000</b>	<b>2,078,000</b>	<b>4,089,000</b>	<b>324,000</b>
<b>CUMULATIVE CASH FLOW</b>	<b>1,239,500</b>	<b>3,303,000</b>	<b>3,581,000</b>	<b>3,905,000</b>	<b>4,281,000</b>	<b>4,467,000</b>	<b>4,689,000</b>	<b>4,952,000</b>	<b>7,030,000</b>	<b>11,119,000</b>	<b>11,443,000</b>

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A review of USAID/Kenya's programs and strategies. The annex, prepared August 1980 spells out the relationship between Mission programs and HG projects.
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10. G.J. de Kruijff. Kenya Secondary Town Shelter and Community Facilities Project Study. Supplementary Infrastructure Report. July, 1980. Specification of infrastructure development need in Kenya small towns.
11. Coopers & Lybrand Associates, Study of the Operations of the National Housing Corporation. Steering Committee Paper. July, 1980. An examination of the performance of the NIIC over the past five years.

A.L.D. Program Design Response to Kenya Housing Guaranty EvaluationsLessons Learned from EvaluationsDelays in Implementation

- o Long approval process for developing schemes by Physical Planning Department and subdivision of land by Commissioner of Lands.

Lack of coordination among Ministries and between NHC and local authorities(LA)Functions of NHC and local authorities impreciseProject preparation process inadequate

- o Market survey
- o Feasibility study
- o Site selection criteria
- o LA participation

Communication between NHC and LA's poorPoor post-occupancy management of estates

- o Records management
- o Loan repayment collections
- o Public and private area maintenance
- o Extensive full subletting

Unknown LA revenue base and debt servicing burdenInstitutional Design Solutions for Kenya Small Town HG Program

- o PPD moved from MLG to MUDH.
- o PPD will approve Part Development Plans during project preparation.
- o Reservation of land responsibility of PPU and will precede project implementation.
- o Assistance in facilitating approvals by IPUP Advisor.

- o National Inter-Ministerial Committee to insure timely participation of all parties at national level.
- o Local Joint Consultative Committee must approve each town development plan.

- o Revised loan agreement required between NHC and LA and empowering NHC to takeover a program if necessary.
- o NHC will have enforcement powers in Tenant Purchase Agreement (TPA).

- o AID has initiated new process.
- o Project Preparation Manual prepared by AID for PPU.
- o PPU, with AID and other donor assistance, will carry out market surveys and feasibilities.
- o GOK compliance with acceptable site selection criteria to be a condition precedent to disbursement.
- o Short-term training of LA staff.

- o NHC to establish regional Divisional Project Manager posts with authority to implement projects.

- o AID to finance short-term training of LA estate managers through Kenya Institute of Administration (Department of Local Government Training.)

- o Long-term resident Community Development advisor and PCVs to set up tenant education programs and work with LA's to improve service delivery.

- o AID to regulate, not prohibit, full subletting (in new TPA).

- o Market-sale plots will take some pressure off improper allocation of low-cost units by middle income.

- o NHC to centrally process individual loan accounts and be empowered to evict.

- o New TPA provides for interest to be based on delinquent payments.

- o Approval of town development plan conditioned on LA submission of acceptable financial plan

(draft)

ANNEX G

GUARANTY AUTHORIZATION

PROJECT 615-HG-006

Provided From: Housing Guaranty Authority

For : The Government of Kenya

Pursuant to the authority vested in the Assistant Administrator, Bureau for Africa by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not to exceed sixteen million dollars (\$16,000,000) in face amount, assuring against losses (of not to exceed one hundred percent (100%) of loan investment and interest) with respect to loans by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing projects in Kenya.

This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans shall extend for a period of up to thirty years (30) from the date of disbursement and may include a grace period of up to ten years on repayment of principal. The guaranty of the loans shall extend for a period beginning with the first disbursement of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.
2. Interest Rate: The rate of interest payable to the Investor pursuant to the loans shall not exceed the allowable rate of interest prescribed pursuant to Section 223(f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans made in the long term U.S. capital markets.
3. Government of Kenya Guaranty: The Government of Kenya shall provide for a full faith and credit guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.
4. Fee: The fee of the United States shall be payable in dollars and shall be one-half percent (1/2%) per annum of the outstanding guaranteed amount of the loans plus a fixed amount equal to one percent (1%) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.

5. Other Terms and Conditions: The guaranty shall be subject to the follow condition precedent and to such other terms and conditions as A.L.D. may deem necessary:

Prior to each disbursement, Borrower shall submit a Project Delivery Plan acceptable in form and substance to A.L.D. Such Plan shall address the techhical, environmental, institutional and financial aspects of each subproject, which will be outlined in detail in the implementation agreement. The technical and the environmental plans shall include technical designs and drawings for the proposed construction, evidence of compliance with site selection criteria, and solutions to the environmental problems identified in the IEE. The institutional plans shall include evidence of actions taken in the reorganization of the NHC and creation of the PPU or other project implementing unit.

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Goler T. Butcher  
Assistant Administrator  
Bureau for Africa

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Date

## THE HOUSING GUARANTY PROGRAM

STATUTORY CHECKLISTTHE GOVERNMENT OF KENYAPROJECT NO. 615-HG-006

ANSWER YES OR NO PUT  
PP PAGE REFERENCES  
AND/OR EXPLANATIONS  
WHERE APPROPRIATE

## A. General Criteria Under HG Statutory Authority.

Section 221(a)

Will the proposed project further one or more of the following policy goals?

YES

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(1) is intended to increase the availability of domestic financing by demonstrating to local entrepreneurs and institutions that providing low-cost housing is financially viable;

YES P. 21

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(2) is intended to assist in marshalling resources for low-cost housing;

YES P. 14

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(3) supports a pilot project for low-cost shelter, or is intended to have a maximum demonstration impact on local institutions and national; and/or;

YES P. 24

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(4) is intended to have a long run goal to develop domestic construction capabilities and stimulate local credit institutions to make available domestic capital and other management and technological resources required for low-cost shelter programs and policies?

YES P. 15

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Section 222(a)

Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time to be in excess of \$1,555,000,000?

YES

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Will the guaranty be issued prior to September 30, 1982?

YES

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Section 222(b)

Will the proposed guaranty result in activities which emphasize:

- (1) projects providing improved home sites to poor families on which to build shelter and related services; or  

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YES P. 21
- (2) projects comprised of expandable core shelter units on serviced sites; or  

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YES P. 23
- (3) slum upgrading projects designed to conserve and improve existing shelter; or  

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YES P. 21
- (4) shelter projects for low-income people designed for demonstration or institution building; or  

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YES P. 24
- (5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor?  

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YES P. 23

Section 222(c)

If the project requires the use or conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible?

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YES P. 24

Section 223(a)

Will the A.L.D. guaranty fee be in an amount authorized by A.L.D. in accordance with its delegated powers?

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YES

Section 223(f)

Is the maximum rate of interest allowable to the eligible U.S. investor as prescribed by the Administrator not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development?

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YES

Section 223(h)

Will the Guaranty Agreement provide that no payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible?

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YES

Section 223(j)

- (1) Will the proposed Housing Guaranty be coordinated with and complementary to other development assistance in the host country?  

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YES
- (2) Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of housing and other institutional arrangements?  

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YES P. 21

(3) Is the project designed and planned by A.I.D. so that at least 90 percent of the face value of the proposed guaranty will be for housing suitable for families below the median income, or below the median urban income for housing in urban areas, in the host country?

YES P. 2

(4) Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed \$25 million in any fiscal year?

NO

(5) Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed \$15 million?

NO

Section 238(c)

Will the guaranty agreement provide that it will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued?

YES

B. Criteria Under General Foreign Assistance Act Authority.

Section 620/620A

1. Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year?

YES

2. Is there any reason to believe that circumstances have changed in the host country so that it would now be ineligible under the country statutory checklist?

NO



